

A Closer Look—Engagement and Exclusion

The choice of whether to pursue engagement or an exclusionary investment strategy—often called divestment—is a long-standing debate among sustainable investors.

Engagement or Divestment?



Engagement is when we use our influence as an investor to enter constructive dialogues and offer suggestions that drive change among companies, policymakers and asset managers.



Divestment is when an investor sells its holdings in a certain type of investment. Investors may divest because they believe certain investments do not align with their values or pose a particular financial risk.

At Wespath, we are committed to the long-term financial well-being of our participants and institutional clients. We understand the moral and financial imperative to drive progress on sustainability issues, and we've long felt that engagement is the best tool to do that.

Several Academic Research Papers Support Engagement:

“We show that in a competitive world exit (divestment and boycott) is less effective than voice (engagement) in pushing firms to act in a socially responsible manner.”

– Harvard, University of Chicago and University of Trento (Italy) researchers¹

“Thus, sustainable investing that directs capital away from brown firms and toward green firms may be counterproductive, in that it makes brown firms more brown without making green firms more green.”

– Yale and Boston College researchers²

“(Oil, gas and energy-producing firms) produce more, and significantly higher quality, green innovation. In many green technology spaces, they appear to be influential first-movers, not easily substitutable.”

– Harvard, University of Texas-Dallas and DePaul University researchers³

This research is complemented by Wespath’s decades-long history of engagement, which has delivered numerous successes across sectors and sustainability issues.



Engaging the Oil and Gas Sector on the Low-Carbon Transition

Wespath has multi-year engagements with **Chevron** and **Occidental Petroleum (Oxy)**. Engagements have led to the following positive outcomes:

- Both companies publishing their first-ever climate risk reports, providing crucial public acknowledgments of the effects of climate change.⁴
- Oxy is the first oil and gas major to announce a target to achieve net-zero emissions.
- Chevron is the first in the industry to recommend a vote for a shareholder proposal focused on the management of methane, which passed with 98% support.

Engaging Building Materials Giant HeidelbergCement on Human Rights

Wespath had directly engaged German building materials giant **HeidelbergCement** about human rights risks, but when talks broke down, we turned to a different form of engagement. We filed a counter-motion at the company, the equivalent of filing a shareholder resolution with a U.S. company. Since the counter-motion was filed, HeidelbergCement resumed discussions, hired an experienced human rights program officer and showed more openness to talking about its supply chains.

More engagement success stories are detailed on the back side!

Shareholder Engagement—Success Stories



Wespath's Lucas Schoeppner (pictured right), Manager of Sustainable Investment Stewardship, and peer investors visit a natural gas wellsite as part of our focus on the reduction of methane, the primary component of natural gas.

Reducing methane leaks from pipeline infrastructure is a win-win: It preserves revenue-generating product for companies in which we invest and curtails emissions of a potent greenhouse gas. In addition to engaging oil and gas companies on their methane management policies, Wespath has engaged federal agencies by writing letters in support of proposed standards for methane emissions.

For more information, visit our Sustainable Investment webpage:



Environmental



Wespath leads a collaborative engagement with **Cummins**, a manufacturing company that makes engines, generators and power components. Alongside our peers at Climate Action 100+, the world's largest collaborative engagement initiative, we've urged Cummins to address environmental sustainability and transition to a low-carbon business model. Last year, management announced Destination Zero, a strategy to align their business with a net-zero future by 2050.



We also demonstrate climate engagement leadership through our work with the **Net-Zero Asset Owner Alliance**, described as the "gold standard" for climate commitments.⁵ The Alliance's ground-breaking paper, *The Future of Investor Engagement*, which Wespath co-authored, outlines meaningful action that investors can take to help achieve a net-zero economy through shareholder engagement. The paper has been widely distributed and is taught by elite MBA programs.

Social



Wespath encourages companies to disclose information related to the rights of employees and people affected by business operations. In an engagement with **Caterpillar**, we urged the company to address the business risks associated with the use of its products in conflict areas, including Western Sahara, which is territory occupied by Morocco; the Xinjiang Uyghur Autonomous Region; the Occupied Palestinian Territories; and Myanmar, where revenue from jade mining has financed conflict. In response, Caterpillar conducted human rights impact assessments across all of its units and strengthened its human rights policy.



Following repeated occupational safety violations at **Dollar General**, Wespath helped lead an engagement with the low-cost retailer focused on its workplace safety policies. The engagement led a collaborating investor to file a shareholder resolution calling for an independent audit. Wespath supported the proposal, and it passed with majority shareholder approval on the first attempt.

Governance



Research demonstrates⁶ that diverse boards result in better performance. Wespath is a member of the **30% Coalition**, which advocates for gender diversity in the board room. Since 2012, more than 400 companies have added women to their boards through the Coalition's efforts.⁷



We co-lead the **Investors for Opioid & Pharmaceutical Accountability (IOPA)**. The IOPA focuses on corporate governance reforms that promote corporate responsibility in the opioid and pharmaceutical industry. Following the IOPA's engagement, five pharma companies agreed to change their executive pay practices to help ensure corporate leaders are held accountable for their company's actions.

Wespath Benefits and Investments implements the sustainable investment strategies for investment funds made available through it and its investment management subsidiaries, including Wespath Institutional Investments. Wespath and its subsidiaries are referred to collectively as "Wespath."

¹ Broccardo, Eleonora, et al. "Exit vs. Voice." National Bureau of Economic Research. August 2020. <https://doi.org/10.3386/w27710>

² Hartzmark, Samuel, and Kelly Shue. "Counterproductive Sustainable Investing: The Impact Elasticity of Brown and Green Firms." Available at SSRN. November 1, 2022. <https://dx.doi.org/10.2139/ssrn.4359282>

³ Cohen, Lauren, et al. "The ESG-Innovation Disconnect: Evidence from Green Patenting." National Bureau of Economic Research. October 2020. <https://doi.org/10.3386/w27990>

⁴ <https://www.oxy.com/sustainability/>; <https://www.chevron.com/corporate-responsibility/climate-change>

⁵ <https://www.unepfi.org/industries/investment/antonio-guterres-net-zero-asset-owner-alliance-is-gold-standard-for-net-zero-commitments/>

⁶ *CS Gender 3000*, Credit Suisse Research, Sept. 2016.

⁷ <http://www.30percentcoalition.org/>