

ENGAGEMENT OVER DIVESTMENT

Individuals and groups opposed to the principles or practices of a subset of investee companies often see divestment from these companies as an optimal strategy for addressing their concerns. Proponents believe defunding specific companies or sectors of the economy can be used as a punitive policy lever that will improve investor outcomes, ranging from financial (e.g., stranded asset risk and poor historical performance during certain time periods) to social and environmental changes. Opponents believe that defunding companies and sectors for ideological reasons is inconsistent with broader investment objectives, has negligible impact, and is ineffective corporate governance, as divested assets are often purchased by owners who do not focus on ESG issues.

The WSIB’s adherence to its statutory fiduciary duties and its Board-approved investment beliefs require that material risk factors, including environmental and social impacts, be recognized and accounted for as part of the investment decision-making process. Based on our ongoing research, the WSIB believes active ownership, the use of ownership rights to influence the activities and behavior of investee companies, is a superior investment strategy as compared with divestment. The goal of active ownership is to improve governance practices and enhance the long-term value of companies. Where the WSIB has exposure to relevant companies, we and our partners monitor and assess risks and opportunities specific to that company, vote proxies, and engage when prudent.

IMPACTS OF ACTIVE OWNERSHIP VERSUS DIVESTMENT

	Active Ownership	Divestment
Alignment with WSIB Investment Beliefs	Fully aligned with fiduciary duties and overall objective to maximize returns at a prudent level of risk	Misaligned with investment belief that “investment or asset class constraints and/or mandates will likely reduce investment returns”; rigid ESG mandates do not always align with fiduciary duties
Impact on risk/return	Allows for maximum diversification and selection of high-quality companies	Reduces diversification; may lead to unintended bets or imprudent risks elsewhere in a portfolio
Influence on how companies are run (public equity only)	Maximizes responsible ownership via actively voting proxies and engaging with companies	Concedes proxy voting responsibility to other shareholders who may have shorter-term interests
Cost	Proxy voting and engagement efforts are included in the investment management fees for equity strategies	Increases costs to plan because custom mandates require selectively removing certain securities from investment products