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STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

December 19, 2023

Programming Note: The Fiduciary Focus will be off next week and will resume on January 2, 2024. We wish all our readers the very warmest wishes for the holidays and a joyous new year!

This Week: Stakeholder capitalism's worldwide takeover; study shows CEO activism hurts companies; an Eye on Energy dives into the Red Sea.

Straight From Strive

Stakeholder Capitalism's Worldwide Conquest

Everyone knows that California and the European Union lead the world in forcing businesses to focus on the environment, social impact, racial justice, and just about everything other than business itself. But so long as you don't live there, and don't invest heavily in companies incorporated there, you may not view their politics as your problem.

Soon, it will be. That's because both California and the EU are enacting sweeping new regulations that apply to anyone who wants to sells goods or services in their regions. That means that a midwestern farmer that wants to sell eggs into California needs to comply with its cage-free requirements and greenhouse gas disclosures. And a Texas technology firm that wants to sell robots in Europe would have to tackle climate change and human rights issues in its supply chains. None of these regulations are designed to help companies or their investors; estimated compliance costs are in the billions.

The dangers to companies and their investors are clear and urgent. That's why Strive rejects attempts to impose European-style stakeholder capitalism on American firms and encourages our pro-capitalism allies do to the same. Our latest research paper delves into the details of these regulations and their potential impacts on businesses in the U.S. and around the globe.

Read the research paper

New Research Shows CEO Activism Likely To Cost Companies

A new study by UCLA and University of Virginia researchers shows that CEOs who engage in activism are likely to harm relationships with policymakers, to the detriment of the company and its shareholders.

The researchers asked 514 local elected officials how they would react to CEO stances on contentious issues. The results showed that the local official was far less likely to engage with a CEO who was considering relocating to their community if that CEO had publicly or privately engaged in social activism, as compared to CEOs that did not. Notably, the researchers also found such advocacy ineffective even on its own terms: The social advocacy *both* turned off local officials to the prospect of relocation *and* failed to persuade the official of the merits of the social issue.

"Our results offer crucial insights for business leaders contemplating such activism," the authors write. "CEOs may have few advantages as political advocates on issues not directly related to their business. Moreover, our finding that politicians are less willing to engage either privately or publicly with CEOs who take controversial positions suggests that CEOs may damage their businesses' relationships with key government actors by speaking out on contentious social and political issues."

The authors warn:

> CEO activism has become a significant feature of public debates on a range of divisive issues. . . [But] just because CEOs are speaking up doesn't mean they're effective at it, and the costs to their companies could be substantial. As CEOs navigate this new role, understanding the potential impact and limitations of their advocacy is crucial for effective and responsible leadership.

The piece is the latest research to demonstrate that businesses are best served by leaders who place fiduciary duties ahead of personal political or policy agendas. Earlier this year, Strive released its own white paper, "The Cost of Stakeholder Capitalism," underscoring the importance of shareholder primacy over stakeholder capitalism: "when a company deviates from its core mission to pursue social goals, its shareholders pay the price."

More Restrictions On Investments In China May Be On The Way, Even As Some U.S. Pension Funds Continue To Bet Big

More restrictions on U.S. investments in China may be on the way, even as some state pension funds continue to pour money into the region.

Last week, a birpartisan House committee released a new report calling for much more extensive investment restrictions. Earlier this year, President Biden issued an executive order limiting private investments in Chinese technology companies. The new report calls on the Administration to broaden the restrictions to prohibit U.S. private equity investment in China-based companies, including investments through passive ETFs, Axios reports.

The report also calls for investments in China-based companies to be taxed at the same rate as ordinary income, rather than the much lower rate for capital gains and dividends. Such tax treatment would almost certainly sound a mass exodus for U.S. investments in China, regardless of whether the particular investment is legally barred.

The report explains that the "PRC's state-led, non-market approach to the economy" creates risks for both investors and U.S. economic security as a whole. Echoing the concerns raised in Strive's own research, the report warns:

> The PRC uses an intricate web of industrial policies, including subsidies, forced technology transfer, and market access restrictions, to distort market behavior, achieve dominance in global markets, and increase U.S. dependency on PRC imports.

Despite these risks, blue state pension funds have been funneling money into China in recent years. New York, California and Washington state have led the charge with over $5 billion each invested in Chinese companies, per a new report by Future Union, a non-partisan trade organization. Universities have also jumped on board, with more than $7 billion in investments in China and Hong Kong. Meanwhile, one Texas pension fund has committed to reducing its China exposure, while Missouri's pension board voted 9-2 to sell its China investments last week.

House Committee Subpoenas BlackRock, State Street and Vanguard In ESG Probe

Last week, the House Judiciary Committee subpoenaed BlackRock, Vanguard, and State Street as part of its ESG-related antitrust investigation after the three companies failed to fully cooperate with the government's requests for voluntary production documents this summer.

As the cover letter explains, "[c]orporations are collectively adopting and imposing progressive environmental, social, and governance (ESG)-related goals" that harm competition and increase costs for consumers. These efforts include industry-wide agreements to force oil and gas companies to phase out fossil fuels, which likely violate antitrust laws. Accordingly, the subpoenas seek information on the Big Three's collusive efforts so that the Committee can assess "whether existing civil and criminal penalties and current antitrust law enforcement efforts are sufficient to deter anticompetitive collusion in the investment industry."

This is not the first time the Big Three and their allies have come under government scrutiny over their ESG practices. Earlier this year, Utah and Alabama's attorneys general announced "investigations into several global financial alliances that aim to impose ESG policies on American businesses and consumers in defiance of our free-market economy." And several state attorneys general have launched investigations into net zero groups, including Net Zero Asset Managers, Net Zero Banking Alliance and more.

To date, the Big Three have produced few documents in response to the Committee's requests and have refused to answer lawmakers' questions on when their productions would be complete. The Committee, it seems, is sick of waiting. Under the subpoenas, documents are due to the Committee by January 12.

CCP-Linked Group Quietly Funding U.S. Climate Initiatives

Climate-focused nonprofit Energy Foundation China has been funneling millions of dollars to climate change initiatives and environmental groups in the U.S., Fox News reported yesterday.

Though the group is technically headquartered in San Francisco, the majority of its operations are in China and its staff boasts extensive ties to the CCP. The group has spent millions trying to get the U.S. to phase out coal and move to electric vehicles, thereby boosting China's energy sector and increasing U.S. reliance on China.

But doing so directly would expose the group's conflicts of interest. Presumably, that's why Energy Foundation China donates to U.S.-based climate groups instead, leaving it to the U.S. nonprofits to push U.S. energy companies to abandon fossil fuels.

And that's exactly what they've done. The tax filings reviewed by Fox News reveal, for instance, that Energy Foundation China made substantial donations to the Rocky Mountain Institute, which has claimed that investments in fossil fuels and related technology will result in so-called "stranded assets." The group argues, for instance, that 90% of investments in even certain comparatively clean fossil fuel technology, like natural gas, will be uneconomic by 2035, despite the fact that demand for natural gas is predicted to grow significantly over that timeframe.

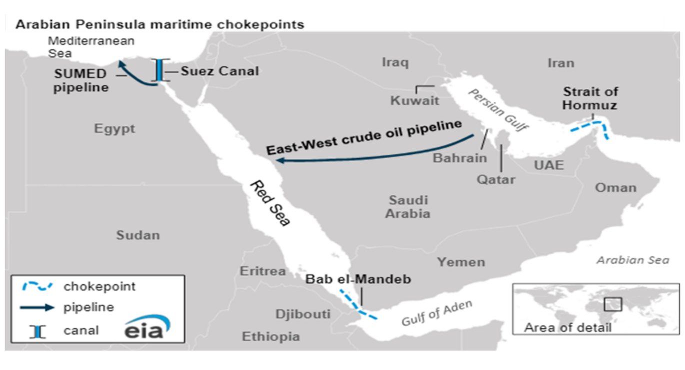
These stats have then been weaponized by shareholder activists to target U.S. energy companies like Duke Energy and The Southern Company to try to oust board members and force the companies to commit to renewables to align with climate goals.

Notably, neither The Rocky Mountain Institute's report nor the shareholder proposals appear to mention China's role in funding the research on which they rely.

An Eye on Energy

Importance of the Red Sea for International Oil and Natural Gas Flow

The Red Sea is a strategic route for Middle Eastern oil and natural gas shipments to Europe and North America. But delivering these resources from the Persian Gulf to the Mediterranean Sea is no easy task. Much of the oil produced in the region must travel from the Persian Gulf through the Strait of Hormuz to the Arabian Sea to the Strait of Bab el-Mandeb to the Red Sea, and from there, through the Suez Canal to the Mediterranean. In times of conflict, these straits can become chokepoints for Western deliveries of oil and gas, impacting energy markets worldwide.



Source: Energy Information Agency.

The Strait of Hormuz and the Strait of Malacca are currently the world's most important strategic chokepoints. But the Red Sea chokepoints—specifically, the Strait of Bab el-Mandeb and the Suez Canal—are growing in importance for international energy trade flows from the Middle East because the physical market remains tight. According to the Energy Information Agency (EIA), in the first half (1H) of 2023, shipments from the Red Sea accounted for 12% of total seaborn-traded oil and around 8% of global LNG trade.

That's why recent attacks on ships in the Strait of Bab el-Mandeb have made headlines. Due to the conflict in Gaza, the Houthis, who control northern Yemen, said that they would target all Israel-bound or Israel-linked ships though the Strait of Bab el-Mandeb regardless of the ship's nationality. That's worrisome enough, but in truth, their drone and missile strikes have become indiscriminate.

The continued attacks from the Houthis will likely increase shipping rates and causing delays as ships are using alternative routes. BP announced on December 18 that it would pause its oil tanker routs through the Red Sea, underscoring the high risk to global shipping and energy markets.

The U.S. has been coordinating support from allies to enhance surveillance, and expanded Combined Task Force 153, as part of the U.S.-led maritime coalition operating in the Red Sea and Gulf of Aden.

This development increases the risk of supply-chain disruptions and regional escalation, particularly if the United States begins attacking Houthi launch sites in Yemen directly.

Strive in the News

Last week, Strive CEO and CIO Matt Cole sat down with Romaine Bostick and Katie Greifeld for an interview on Bloomberg Television.

During the interview, Cole explained Strive's view that the purpose of a corporation is to unapologetically maximize shareholder value, which means prioritizing shareholders over all other stakeholders.

He also shared how Strive has been able to have an outsized influence in corporate America, despite having launched just over a year ago: "Whether you have one share or millions of shares, if you bring an argument that management and the C-suite agrees would add value to shareholders, they are sympathetic to that." Companies are also in many cases eager to free themselves of the ESG constraints placed on them by other asset managers: "a lot of boards and C-suites have been in opposition to how large asset managers have pushed change on them," Cole commented, "and so when we come in and bring a different voice, . . . it's a welcome voice."

Watch the full interview

The Best of the Rest

Additional stories about ESG investing, company happenings, and more.

- Goldman Sachs Shutters Climate ETF As Investors Head For Exits; $7 million fund lost $1.8 million last year, expected to liquidate in January.
- Pro-ESG pension fund managers push for more voting choice; funds are concerned that some asset managers are "regressing" on their commitments to vote all shares in extremely pro-ESG way, despite asset managers' continued support for ESG measures.
- Disney's former CFO joins Trian's proxy fight as the activist's nominee to the company board; "The Disney I know and love has lost its way," the former executive explained.
- ESG fund managers press Big Oil to adopt net zero goals; COP28 conference attendees from ESG investment firms disappointed that oil companies have largely declined to pursue Scope 3 greenhouse gas emission reductions.
- Is ESG dead or just rebranded? A European perspective on the semantic shift.
- Morningstar previews new voting choice programs among the Big Three for 2024; most options are limited to certain investors and certain funds, and do not offer true investor "choice."
- Food conglomerate Mondelez releases racial equity audit report after caving to ESG shareholder pressure; report praises company's racial hiring quotas and pledge to spend $1 billion with suppliers owned by minorities, encourages company to do more.
- IBM faces discrimination complaint over DEI-linked executive compensation policies.

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Who Are We?
Strive is one of the fastest growing asset management firms. Our mission is to maximize value for our clients by leading companies to focus on excellence. **Click here** to learn more.

What Makes Strive Different?
While many asset managers push companies to focus on other stakeholders such as employees, suppliers, the environment and society at large, we live by a strict commitment to shareholder primacy — the belief that **the purpose of a for-profit corporation is to maximize long-run value for investors. Click here** to learn why shareholder primacy is so important.

How Does Strive Maximize Value?
Our corporate governance team engages with the companies in which our clients are invested to advocate for the pursuit of excellence in corporate America. We are aggressively apolitical when it comes to utilizing our corporate governance tools and demand that companies focus exclusively on delivering long-term financial value for investors. The corporate governance team also determines how to cast our shareholder votes at annual meetings and special elections, evaluating each proposal through the lens of maximizing financial return.

Our research team conducts deep analysis of macro economic trends, market developments, and industry- and company-specific metrics to identify potential risks and opportunities for our clients. We then incorporate the results of this research into our engagement and voting strategy, and share it with our clients in the form of white papers and market research reports so they can make the most educated investment decisions possible.