STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

February 21, 2024

This Week: Climate Action 100+ members abandon ship; ESG activists take on pharma; An Eye On Energy talks Russian gas.

JP Morgan, State Street Depart Climate Action 100+

JP Morgan and State Street have left Climate Action 100+, a nonprofit organization through which investors coordinate to pressure their portfolio companies to reduce their greenhouse gas emissions in the transition to net zero. BlackRock scaled back its U.S. participation, although its international arm is still a member.

While some observers have heralded the news, others were more cautious. "JPMorgan, State Street, and BlackRock's departure is a necessary step in the right direction, but consumers should wait to trust these companies again," Consumers' Research executive director Will Hild told Fox News.

One reason for caution: Both State Street and JP Morgan indicated that they left the organization over concerns about independence, suggesting they may continue to pursue their climate stewardship goals independently. Ultimately, the firms may be more concerned about pending U.S. antitrust investigations—which allege that the companies have illegally colluded with one another—than they are about putting environmental targets aside. Notably, JP Morgan, State Street and BlackRock all remain members of the Net Zero Asset Managers initiative as well as the Institutional Investors Group for Climate Change.

These asset managers are right to be concerned. As Strive has warned over and over again, the group's coordinated effort to reduce emissions means forcing energy companies to slash production, harming consumers, competition, and companies themselves. That's not good for investors. It's also likely illegal. Now that lawmakers and prosecutors have begun to take note, it's no surprise that JP Morgan and friends are slowly trying to distance themselves from the group.

These pro-ESG asset managers may also view their continued participation in groups like Climate Action 100+ as largely unnecessary, given the progress that has already been made. There's hardly a company in North America that doesn't issue a sustainability report or net zero targets, with a shocking 92% of all S&P 100 companies placing responsibility for sustainability issues with their corporate boards.

Given this reality, JP Morgan, State Street and BlackRock's withdrawal from Climate Action 100+ is a little like the U.S. withdrawing from the Allied Powers in the fall of 1945: technically true, but only after the war had been won.

ESG Activists Take On Pharma

On Thursday, CommonSpirit Health's director of advocacy, Laura Kraus, announced the nonprofit hospital chain's latest initiative: urging pharmaceutical companies to charge less for prescriptions and file fewer patents so that their competitors can drive prices, and profits, down.

Kraus discussed the initiative during a webinar last week. The nonprofit has filed shareholder proposals at Pfizer, Eli Lilly and other pharmaceutical companies asking them to subject themselves to third party audits on human rights issues, including the company's impact on the right of every person to receive the highest attainable standard of health, regardless of means. The group also filed a number of related proposals against what they call "patent thickets," which is the practice of filing multiple patents to protect a drug from generic competition for longest period allowed by law.

During the presentation, Kraus quoted Martin Luther King and cited the United Nations Universal Declaration of Human Rights to explain why pharmaceutical companies needed to view access to their medications as a "fundamental human right." She also explained that no government has fully enacted the UN's position on human rights into law, and so urged shareholders to step up to fill the void.

Kraus also warned of the "reputational risks" to pharmaceutical companies if they don't adopt the UN's human rights policy. But such arguments are less convincing when it comes to pharmaceutical companies compared to a retail brand like Target or Bud Light.

For all the talk of price gouging, there was one figure Kraus didn't discuss: CommonSpirit CEO's 2023 compensation, which exceeded that of even the largest pharma heads at a staggering $35 million last year.

U.S. Investors Move to ETFs in Emerging Markets Sans China

U.S. investors in emerging markets are shifting funds into ETFs without China, the Financial Times reported last week.

Net inflows into U.S.-listed emerging markets funds that exclude China tripled to more than $5.2 billion in 2023 compared to 2022, while China-focused funds experienced outflows of about $800 million over the same timeframe.

"The correlation of Chinese equities towards other major emerging markets has absolutely collapsed in the last few years," one San Francisco-based asset manager told the outlet. "There is certainly a percentage of our investors that just prefer not to have China in their portfolios at all and [the solution] is an ex-China version of the emerging markets."

The commentary comes as Chinese shares have extended their losses, despite the CCP's pledge to stabilize the stock market. Economic fears caused by ongoing deflation continue to mount, and property prices continue to decline. None of this is good news for investors in the Chinese market.

But China's economic woes have been other emerging markets' gains. India and Mexico, for example, have benefited from corporate efforts to diversify supply chains away from China and have seen 19 and 16 percent jumps in their respective benchmark stock market indices as a result.

U.S. investors are starting to recognize that China risk is investment risk. For savvy investors, that presents both risks and opportunities.

Social Investment Coalition Releases 2024 Voting Guide

Last week, the Interfaith Center on Corporate Responsibility (ICCR) released its 2024 proxy resolutions and voting guide.

Its members have filed 344 resolutions so far this year, with human rights and climate change being the largest two categories. Lobbying, DEI and racial justice, and corporate governance round out the top five.

Along with the standard ESG fare, there are a number of new proposals making their 2024 debut. These include asking companies to report and mitigate the harm allegedly caused by:

- non-sugar substitutes,
- deep sea mining,
- paying workers a non-living wage,
- unethical use of artificial intelligence, and
- microfiber pollution

The proposals are pending across hundreds of American companies, but some businesses have been targeted more than others. Topping the list are Meta and Exxon, which have been hit with nine and seven ICCR proposals respectively. Meta faces proposals on issues ranging from human rights issues to climate lobbying to child safety to claims that Meta is not sufficiently censoring information on its platform. Exxon is similarly facing a wide variety of proposals, including demands that the company accelerate its emissions reductions, disclose any pay gaps along racial and gender lines, and report on the human impacts of an oil spill in Guyana.

While no one can predict how these disputes will ultimately play out, one thing is clear: Proponents of stakeholder capitalism have not given up the fight. Companies and their shareholders will have a lot to consider this year.

An Eye on Energy

Russian Gas at a Crossroads

Since the beginning of the Ukraine war, Russia's gas exports to the European Union (EU) have fallen to levels that have not been seen in over 40 years; meanwhile, United States liquefied natural gas (LNG) exports to the EU have surged by 141%.

At a time when global LNG demand is expected to increase 50% by 2040, Russia's position as a leading global exporter of natural gas is unclear. Even before opposition leader Alexei Navalny's death in an Arctic prison, an EU energy official indicated last week that the EU was not looking to extend the Ukrainian trilateral gas transit agreement with Russia that expires at the end of this year.

The existing contract between Naftogaz—Ukraine's national oil and gas company—and Gazprom—Russia's state-owned oil and gas company—agrees that Ukraine will permit transit of Russian gas to European markets between 2019 and 2024. Russian natural gas exports to Europe were down by 56% in 2023, and that could drop even farther, if exports via Ukraine fall to zero. Russia has increased gas exports to China to offset some of its lost European business, but that may not be enough to meet its global energy ambitions.

The U.S. and EU are expected to pass "robust" new sanctions on Russia ahead of the second anniversary of Russian's invasion of Ukraine on February 24. The sanctions will likely impede the Arctic LNG-2 project, an important project to help Russia meet its global LNG ambitions.

These events will accelerate Russia's plans to increase its energy footprint in the Arctic—an area of growing strategic importance to the U.S.—and intensify its quest to develop new sources of domestic demand to maintain its current export levels after January 2025.

The upcoming sanctions and continued use of energy as a diplomatic tool will reshape the global gas export market. These punitive dynamics will only cement a stronger energy partnership between China and Russia, as Gazprom will be unable to increase pipeline gas exports to anywhere other than China and Central Asia, unless new pipelines are built.

As heightened geopolitical tensions continue to fragment international commodity markets and force them to evolve, the U.S. LNG industry will try to remain a dependable supplier of natural gas to the global economy and Europe. But it will be hindered by the Biden Administration's recent decision to halt permits for new LNG export projects, which Russian state-controlled media RT called a gift to Vladimir Putin.

As another Russian outlet put it, "The EU may well turn to Moscow for additional supplies. Of course, there will be no talk of any discounts."

The Best of the Rest

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

- Volkswagen reevaluates China joint venture as U.S. impounds cars over Uyghur forced labor concerns.
- Social activists eye new strategies including shareholder proposals and litigation; groups "act as a Trojan horse to open several different methods by which they can pursue an ESG-related agenda or force change from within."
- New York state partially divests from Exxon over climate concerns; $260 billion fund claims company is not ready for energy transition.
- Companies slow on ESG hiring as they focus more on cost cutting and investments with higher returns.
- EY looks at ESG engagement and proxy voting; companies continue to face pressure on climate, diversity, unionization, biodiversity and other ESG issues.
- Google "remains firm in its racial-equity commitments," including using race-based targets to increase underrepresented groups in leadership by 30% by 2025, chief diversity officer tells BBC.

Know someone who might enjoy this newsletter? Be sure to share it with them. Not signed up and want to receive your own weekly copy of The Fiduciary Focus? Click here to sign up.

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.