The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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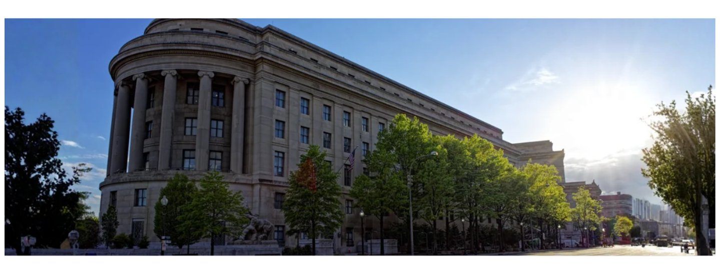
This Week: FTC launches antitrust probe into proxy advisors; Fossil fuel debate brews at COP30; The Bitcoin Brief sees Bitcoin bans backfire.

FTC Launches Antitrust Probe Into Proxy Advisors



The Federal Trade Commission is investigating whether proxy advisors ISS and Glass Lewis have violated the antitrust laws by steering investors and asset managers to support ESG causes, the Wall Street Journal reports.

Catch Me Up:

- ISS and Glass Lewis are proxy advisors who sell corporate voting recommendations, advising investors and asset managers on how to vote their shares.
- Together, they've historically controlled around 97% of the proxy advisory market, wielding significant influence over shareholder votes.
- Last year, the House Judiciary Committee began investigating the alleged duopoly over similar antitrust concerns, releasing a report last December accusing ISS and Glass Lewis of using their influence to push companies towards financially-harmful ESG and climate goals.
- Now, the FTC is investigating, requesting documents from the proxy advisory firms to determine whether they engaged in "unfair competition" when pushing their ESG views.

Widespread Critique: The antitrust investigation is just the latest wave of criticism against the proxy advisory firms.

- Texas passed a law requiring proxy advisors to disclose when their voting advice is contrary to their customers' financial interests, which ISS and Glass Lewis are currently challenging in court.
- JP Morgan's Jamie Dimon, meanwhile, has reportedly called them a "cancer" and criticized their conflicts of interest, as the proxy advisors offer lucrative consulting services to the same companies that they issue voting recommendations for.
- Elon Musk has called the firms "corporate terrorists" who antagonize company management, despite what's best for the company and its shareholders.

Why It Matters: Proxy advisors aren't required to provide advice that's in shareholders' best financial interests. And, when it comes to ISS and Glass Lewis, they often don't. Yet asset managers continue to rely on them, with some firms "robovoting" alongside ISS and Glass Lewis. Broadly speaking, asset managers' reliance on proxy advisors might not be a problem if there were a competitive market for proxy advisory services, such that asset managers could shop around to find a proxy advisor whose voting recommendations aligned with the asset manager's views on how to maximize value for its clients. But, at least for a long time, that wasn't the case. And the FTC seems determined to figure out why.

Fossil Fuel Debate Brews at COP30

At this year's global climate conference COP30, a fight over fossil fuels is brewing, with Paris-agreement aligned countries calling for a phase-out, while Exxon and others are calling to end certain emission reduction goals, Bloomberg reports.

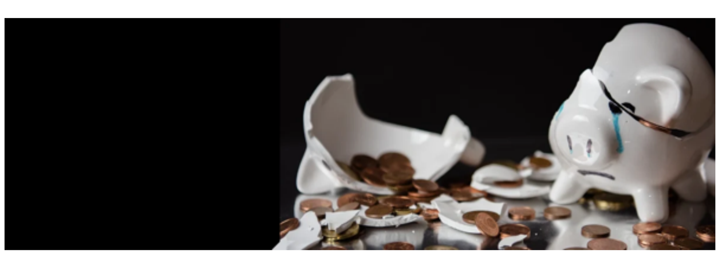
A Growing Divide: Whereas prior COP meetings used to be a meeting of likeminded climate change fighting warriors and their allies in the government and private sector, today, the crows is much more mixed. While some are still sounding the climate alarms, others are suggesting a more balanced approach, that takes into account surging demand for energy.

- Anti-Fossil-Fuel Camp: In the anti-fossil fuel camp are host country Brazil, along with UK, Germany, France, Denmark, Colombia and Kenya, who have all indicated willingness to sign onto a plan to move away from fossil fuels.
- Pro-Fossil-Fuel Camp: On the other side of the debate, Exxon CEO Darren Woods has called for continued investments in oil and gas, and told Bloomberg "he wants a clean break from government-led accords that mandate emissions reductions by banning or restricting fossil fuels" during a podcast recorded at the event.

Scope 3 In Question: Woods specifically pushed back on Scope 3 emissions, arguing that Exxon should not be asked to take responsibility for its customers' use of fossil fuels. Instead, he proposed a new carbon accounting methodology that would attribute emissions solely to the end user instead.

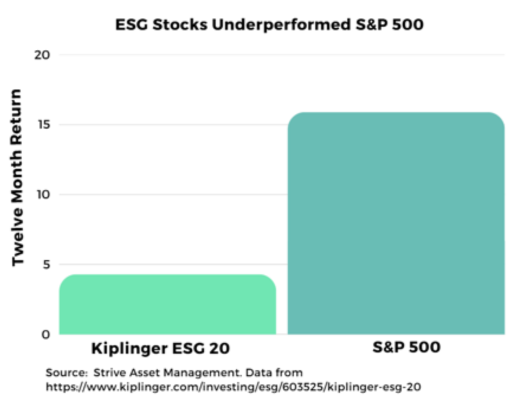
Why It Matters: For the first time in years, COP30, like the human resource conference we covered last week, is opening its doors to differing views. And, equally important, the people who hold those dissenting views are willing to speak up. The result will be a more robust discussion, a more thorough vetting of ideas, and, hopefully, a more thoughtful end result. Echo chambers, after all, are typically known only for reproducing their echoes.

ESG Stocks Underperform



ESG stocks continue to lag far behind the S&P500, Ballotopedia reports.

The Facts: The stocks in the Kipling ESG 20, a list of 15 stocks selected at the best ESG companies in the United States, underperformed the S&P 500 by a factor of almost four over the past twelve months.



In addition to individual stocks, the financial outlet also picks what it considers to be the best ESG funds. Of those, just one outperformed its peer index.

The Issue: Per Ballotopedia:

> The results show that even well-known ESG portfolios are struggling to match broader market returns. Many ESG funds hold large positions in renewable-energy, which underperformed this year. The weaker results could lead investors to question whether ESG criteria come at the cost of lower returns.

Why It Matters: For investors who don't mind sacrificing returns in exchange for investing in stocks they believe improve the world, there's no problem at all. But many ESG proponents won't admit that's what they're doing. Even Kiplinger itself ran its story on its dismal performance with the headline announcing this year's picks, and assuring readers that "doing good and making money are no contradiction with these ESG stock and fund picks that ride the trend of socially conscious investing." At best, the headline's a bit misleading; at worst, it leads to outright fraud.

The Bitcoin Environmental Paradox: How Bitcoin Bans Backfire

Last month, British Columbia enacted a ban on new Bitcoin mining operations in the province, joining a handful of other jurisdictions that have done the same to fight global warming. The irony? These policies will almost certainly increase global carbon emissions, rather than reduce them.

British Columbia announced the ban late last month, citing the need to "preserve the province's electricity supply." The ban is part of a larger legislative energy package, which the province claims will "help prevent two to three million tonnes of carbon emissions annually, supporting B.C.'s climate goals."

British Columbia isn't alone. Norway announced plans in June for a temporary ban on power-intensive cryptocurrency mining, with Digitalization Minister Karianne Tung declaring a "clear intention to limit the mining of cryptocurrency in Norway as much as possible." In New York, Democratic lawmakers introduced legislation to halt crypto mining facilities operating on expired air permits, with environmental groups citing increases in greenhouse gas emissions.

But a groundbreaking study from the Centre for Blockchain Technologies at University College London reveals a striking paradox: Bitcoin mining bans in low-carbon regions actually *increase* global emissions by pushing mining operations to jurisdictions with dirtier energy grids. The researchers look at how Bitcoin mining bans have affected mining production in the past and use that data to model what would happen if various countries followed suit. To do so, they track where displaced miners would relocate and calculate the net carbon impact. Their findings upend conventional wisdom about Bitcoin regulation.

Consider Canada, which generates approximately 60% of its electricity from hydroelectric power and another 15% from nuclear—among the cleanest energy profiles in the world. The researchers found that a Canadian mining ban would increase global Bitcoin emissions by approximately 5.6%, or 2.5 million tonnes of CO2 annually. That's because when Canadian miners shut down, global mining doesn't decrease—it simply relocates to places like Kazakhstan, where coal dominates. The same pattern holds across clean-energy jurisdictions. A ban in Paraguay would boost emissions by 1.9 million tonnes; in Norway, by 576,000 tonnes.

Yet progressive activists in mostly Western nations continue to press for Bitcoin mining bans. The Sierra Club, for example, has called for Texas to take a more cautious approach to allowing cryptocurrency mining within its borders, even though such a ban would likely lead to a 2% increase in global Bitcoin emissions. In New York, a ban would drive global Bitcoin emissions up more than 3%. In other words, these green advocates are lobbying for policies that will hasten climate change.

If they truly care about global emissions, a very different approach is needed. As the researchers put it, policymakers should "reconsider the effectiveness of outright Bitcoin mining bans as a tool for reducing global carbon emissions." They recommend instead "tax incentives for relocation towards low-carbon jurisdictions"—a complete reversal of current policy trends.

Context matters too. While Bitcoin's electricity consumption is substantial, neither gold mining nor traditional banking is emissions-free. Gold and banking each consume an estimated 265 terawatt-hours annually and produces 145 megatons of CO2—nearly double Bitcoin's carbon output. And unlike these legacy systems, Bitcoin's energy consumption is entirely transparent and electricity-powered alone.

But even if you choose to focus on Bitcoin alone, the solution isn't to ban mining in clean-energy jurisdictions—it's to embrace it. Every megawatt-hour of Bitcoin mining powered by Canadian hydroelectricity or Norwegian wind is a megawatt-hour that doesn't happen in a coal-fired plant in Central Asia. British Columbia had an opportunity to help decarbonize global Bitcoin mining. Instead, they've made the problem worse. Climate-conscious jurisdictions should learn from that mistake.

The Best of The Rest

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

- HSBC waters down net zero targets; prior pledge to reduce financed oil and gas sector emissions by 34% by 2030 is now a pledge to reduce it by 14% by 2030, but other targets remain intact.
- ISS proposes changes to benchmark policies, plans to continue to support ESG proposals on a "case by case" basis, but pinky promises to consider "the proposal's impact on shareholder interests" for the first time.
- GM, Stellantis pivot away from EV to build more gas cars, as consumer demand dries up.
- Norway's sovereign wealth fund suspends its ethics council, expressly acknowledging that excluding companies based on ethical concerns was likely to hurt the fund's bottom line, which contributes a quarter of the country's annual budget.
- CalPERS takes heat over its $282 million investment in Chinese companies, including some that have been on the federal government's blacklist for years.

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Strive, 200 Crescent Court, Suite 1400, Dallas, Texas 75201, United States, (855) 427-7360