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STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Strive to hold webinar with London Business School Professor Alex Edmans; SEC releases climate disclosure rules; The Silicon Surge examines an industry caught between the U.S. and China.

Straight from Strive

Sign Up for Strive's Upcoming Webinar with Alex Edmans

Join us at 11:00 a.m. on Thursday, March 21 as we speak with London Business School Professor Alex Edmans about Why DEI Data May Contain Lies.

Commonly cited studies on diversity's effect on business performance have influenced hiring and promotional processes across the globe through the use of DEI, but what does the research actually tell us? Join Strive CEO & CIO Matt Cole and Head of Research Chris Nicholson, Ph.D., in welcoming Professor of Finance at London Business School Alex Edmans to discuss how the findings of popular research on the topic are often deeply flawed.

Register for the webinar here.

SEC Releases Climate Disclosure Rules; Red States Sue

On Wednesday, the Securities and Exchange Commission (SEC) released its highly anticipated climate disclosure rules. A coalition of ten Republican-led states have already sued.

While the final rule scrapped the most aggressive provision, the rule will require publicly-traded companies to focus and report on environmental rather than business concerns. Specifically, the final rule eliminates the requirement that companies disclose Scope 3 emissions, which are indirect emissions by third parties up and down its supply chain. But it still requires publicly-traded companies to gather and disclose all kinds of emissions and climate-related data irrelevant to the company's bottom line.

A coalition of ten states, led by West Virginia, has already filed a lawsuit challenging the rule. The lawsuit alleges that the SEC lacks authority to issue the rule because it requires companies to create, gather and disclose a crushing amount of data that goes far beyond the financial disclosures that investors need. In announcing the suit, West Virginia Attorney General Patrick Morrisey said that the government is acting as a "puppeteer," using public companies to drive its climate agenda. The Sierra Club, meanwhile, has said it is considering litigation of its own, arguing that the final rule doesn't go far enough.

An SEC spokesperson said the SEC intends to "vigorously defend" the new rule.

A Deeper Dive Into Google's DEI-Fueled Troubles

Last week, Pirate Wire peeked "inside the DEI hivemind that led to Gemini's disaster."

The piece paints a picture of Google in disarray, a leaderless organization whose seemingly only centralized governance structure—Human Resources—is focused almost exclusively on pushing DEI goals. Unbelievable though it may sound, the author reports that the "only thing connecting employees is a powerful, sprawling HR bureaucracy that, yes, is totally obsessed with left-wing political dogma."

Among its directives was insisting "engineers no longer use phrases like 'build ninja' (cultural appropriation), 'nuke the old cache' (military metaphor), 'sanity check' (disparages mental illness), or 'dummy variable' (disparages disabilities)." "Greyglers"—an affinity group for Googlers over 40—was forced to change its name because it was not "inclusive" enough, since some people over 40 do not have grey hair.

But the DEI mandates went further than micromanaging language. Hiring and promotions went from merit based to being focused primarily on diversity. Less qualified candidates were promoted to higher roles. More qualified candidates were expected to take the racial and gender discrimination in stride. Morale dropped. No one felt they could speak up.

Given this culture, it's no surprise that the company released a cartoonishly inaccurate AI image generator with female popes and black founding fathers. But its problems run much deeper. Fixing Google's costly woes will require more than issuing a bland apology and tinkering with its AI algorithm's DEI settings; it will require a return to merit and innovation. Hopefully, Google's leadership is up for the challenge.

Four Banks Leave Climate Group Without Really Leaving

Four large U.S. banks have left another climate group following antitrust scrutiny, Reuters reported last week. But each of the four banks pledged to continue to follow the organization's mandates on their own.

The four banks had previously been signatories to the Equator Principles, under which banks agree to require that the large projects they finance act in a "socially responsible manner" that minimizes negative impacts on "project-affected ecosystems, communities and the climate."

Following their simultaneously reported departures, each bank stated that it had made an independent decision to continue to abide by the Equator Principles anyway. For example, per Reuters, a JP Morgan spokesperson said "the bank had invested in environmental and social risk experts and in-house processes, meaning it was not necessary to maintain membership, although its in-house standards would stay aligned with the principles." Citi similarly pledged that its commitment "has not changed." Bank of America and Wells Fargo rounded out the allegedly uncoordinated effort with similar statements of their own.

Silicon Surge: What's Powering Semiconductors

Chip Companies Navigate Tension Between U.S. and China

AMD hoped to get its new MI309 processor approved for the Chinese market, but U.S. regulators quickly fought back. The Department of Commerce denied the company's application to sell its chip, claiming it's too powerful and poses a national security threat.

Rival Nvidia is in the same boat. In its 2023 Q4 earnings report, the company announced that data center growth was strong across all regions except China due to export regulations imposed in October. It's still doing business in China by selling alternative chips that don't require special licensing from the U.S.

Since the U.S. crackdown on selling advanced AI chips to China in 2022, American chip giants have faced regulatory headwinds. The export ban prevents China from acquiring U.S. technology to enhance its military capabilities and violate human rights.

Other tech companies are also facing China trouble. Apple's iPhone sales plummeted 24% in the first six weeks of this year, while Chinese competitor Huawei rose 64% year over year. During the COVID pandemic, the U.S. government placed numerous sanctions on Huawei, preventing it from gaining access to specific chips and technology required for 5G mobile internet.

It's not just American companies that are facing restrictions. ASML, a Dutch company, announced in its annual report that the government set export controls to curb Chinese access to its advanced technology. ASML, the world's only supplier of extreme ultraviolet (EUV) equipment, is still growing its sales.

A decade ago, geopolitical risks were at the back of investors' minds during China's bull market. But that bull market is now long gone. China's CSI 300 index, a benchmark for Shanghai and Shenzhen listed stocks, is in its fourth consecutive year of decline and is currently down 7.3% this year. A real estate crisis, deflation, and unemployment are just a handful of economic concerns the market is reflecting. Chinese regulators are pushing state-linked companies to purchase exchange-traded funds to boost stock prices.

The reality is China doesn't have a free market economy, and there's only so much its government can do to rescue its capital markets. The nation is investing billions into its processors to reduce its dependence on foreign technology, but investors are skeptical that it'll ever catch up.

Foreign and domestic investors are giving up on the Chinese economy. U.S. investors pulled over $30 billion from China in 2023, the only net outflow in the past five years. Plenty of other emerging markets exist for companies to partner with; China's loss is India and Mexico's gain. It's only a matter of time before AMD, Nvidia, and ASML realize the Chinese market is not worth fighting for.

Voting Spotlight: Apple

Each week during proxy voting season, Strive will highlight one interesting vote from a recent company's annual meeting.

During the Apple shareholder meeting late last month, shareholders rejected a union-sponsored proposal requesting the company report on its use of Artificial Intelligence ("AI") in its business operations. The union was concerned about "mass layoffs" that could result if AI automates jobs, arguing the report would advance a "significant social policy" by forcing Apple to pay attention to the ethics of AI use.

In Strive's view, such a report is unlikely to generate long-term financial value. The proposal was anti-innovative, as it asked Apple to self-regulate a fast-growing division of its company. The proposal was also devoid of any evidence that such a report would help Apple's bottom line. For these reasons, Strive sided with management and voted against this labor-backed measure.

Strive in the News

The Daily Signal Talks Pro-Shareholder Investing with Alexandra Gaiser

Last week, the Daily Signal released its podcast episode featuring Strive's General Counsel Alexandra Gaiser.

During the interview, Gaiser shared Strive's unique, pro-shareholder view of asset management. Other asset managers prioritize ESG goals, like forcing carbon emissions goals and diversity targets on companies, often at the expense of both shareholders and the ideological cause itself. Forcing U.S. energy companies to slash emissions, for example, often drives fossil fuel production to countries like Russia, China and Venezuela, which are "polluting out the wazoo."

Strive, Gaiser explained, has a different perspective: Investments "shouldn't be politicized." Rather, investing "should be a really boring sort of mathematical exercise."

While investing should be boring, the podcast is anything but. To listen to the full version, click here.

The Best of the Rest

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

- Proxy votes bid on ahead of Disney meeting as Trian attempts to get two seats on company's board; the current $.20 per share price is the highest the exchange has seen in the two years since its launch.
- "Reports of the death of ESG are greatly exaggerated," Forbes reports; notes BlackRock's recent linguistic shift from "ESG" to "transition financing."
- Tire flies off Boeing United plane in second United malfunction in a week, as industry faces scrutiny for prioritizing DEI over merit in hiring and promotion.
- Conservative group launches proxy advisory service; promises to advise conservative investors on how to "vote their shares in accordance with their values" as an alternative to left-leaning Institutional Shareholder Services and Glass Lewis.
- Director quits truckload carrier company Werner's board over ESG; cites disagreement with company's "unquestioned dedication to ESG considerations as a primary strategy."
- Labor group ends Starbucks board fight; union had nominated three pro-union directors to pressure Starbucks in labor negotiations.

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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.