STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Law profs propose "Anti-Political Posturing Pledge"; The Fed pushes back on European climate extremism; The Silicon Surge sees momentum in Malaysia.

Law Profs Propose "Anti-Political Posturing Pledge"

Last week, two professors at the University of Pennsylvania and University of Utah released a new paper proposing a novel way to help companies escape the PR statement grind: take a public pledge not to wade into political issues.

The Pledge: "We believe that our role as leaders of corporate America is to serve our stakeholders by providing quality goods and services in an ethical and sustainable manner. Because we do not believe that taking stands on political issues furthers these goals, neither the corporation nor its executives will do so, nor will we engage in politically explicit marketing and promotional activities."

The Concern: Stakeholder capitalism—the belief that companies must focus on doing good in the world, rather than business alone—is harmful.

- *Shareholders suffer*. "Corporate political posturing often backfires [and] it does so unpredictably and potentially catastrophically." See, for instance, Bud Light, Target and Disney.
- *Citizens suffer*. "[P]olitical posturing typically favors progressive causes. As more and more companies pile on, those who disagree may feel increasingly isolated and ... economically disenfranchised."
- *The debate suffers*. "Corporations add a logo to one side of the debate, not arguments, science, or statistics."

Does This Sound Familiar? The authors acknowledge their proposal is modeled after the Business Roundtable's 2019 Statement on Corporate Purpose, which hundreds of CEOs signed pledging their commitment to serving outside stakeholders like employees and the environment, in addition to shareholders.

Other Solutions: The authors also float other ways to get companies to the exit ramp on political posturing—some more legally complicated than others.

- *Voluntary disarmament:* Aside from a pledge, companies could stop engaging in political posturing by simply stopping.
- *Unleash the beast:* SEC could crack down on "political hypocrisy"—i.e., when a company's statements do not match its actions—as securities fraud. Notably, many ESG proponents also favor this solution, to ensure companies make good on their ESG pledges. But in the authors' view, such accountability is more likely to make companies hesitant to wade into controversy to begin with.
- *Alert the plaintiffs' attorneys:* The authors also note calls to abandon the business judgment rule—which is sort of like a qualified immunity that protects companies from liability for ordinary business decisions—for corporate political speech.

Strive's View: All ideas are worth considering, but the Anti-Political Posturing Pledge must be praised for its elegance and simplicity. For any companies willing to sign, we'll be handing out pens.

The Fed Blocks New Global Banking Climate Rules

The Federal Reserve has pushed back on a global banking committee's efforts to impose green commitments on U.S. banks, Bloomberg reported last week.

The European View: The E.U. has been pushing for prescriptive banking rules that would push the global economy towards net zero, including forcing banks to disclose their "financed emissions." These policies hold banks responsible for the pollution caused by the companies they lend to, encouraging them to drop fossil fuel clients and other emitters.

The Fed View: The Fed has reportedly cautioned the committee that it has a very narrow mandate and that climate activism falls outside of it.

Zooming Out: The Fed's pushback—which, per Bloomberg, has been mostly in closed-door meetings and behind the scenes—seems to be a dramatic shift from its public-facing U.S. policy. As regular readers of this newsletter may remember, as recently as October, the Fed issued a guidance document with the FDIC and Office of Comptroller of Currency requiring banks to consider climate change in their lending policies.

Our Takeaway: It's good to see the Fed pushing back on unaccountable, global climate czars, but it's not clear whether the Fed is opposing the efforts because it doesn't think U.S. banks should be the climate police or because it thinks the Fed should have the exclusive power to oversee such efforts.

McKinsey Diversity Studies Discredited

Econ Journal Watch has published a study by two accounting professors unable to replicate McKinsey's studies purporting to show a link between diversity and financial performance, News Nation reported last week.

McKinsey Said What? Four times in the past nine years, consulting firm McKinsey has released papers claiming that gender and racial diversity help companies outperform. The papers have feel good titles like "Diversity Wins" and "Why Diversity Matters" and have been cited hundreds of times by activists, business leaders, and lawmakers to push DEI policies.

The Truth: There is no correlation.

From the Horse's Mouth:

> [O]ur results indicate that despite the imprimatur often given to McKinsey's 2015, 2018, 2020, and 2023 studies, McKinsey's studies neither conceptually (in terms of the correct direction of causality) nor empirically (in terms of their set of large US public firms) support the argument that large US public firms can expect on average to deliver improved financial performance if they increase the racial/ethnic diversity of their executives.

A Lopsided Balancing Act: While the purported financial benefits of DEI policies are murkier than ever, the risks are coming into sharp focus. Last week, the *Wall Street Journal* wrote about the Novant Health lawsuit, where a white employee was awarded millions of dollars after his company allegedly fired him to make way for DEI hires. The piece joins recent coverage reporting on President Trump's plans, if elected, to use the Department of Justice to investigate and prosecute instances of DEI-based discrimination in corporate America.

Dive Deeper: Strive is passionate about providing investors with the most scientifically-sound research on how to maximize returns. Check out our white paper on the topic here. Or our webinar where we discuss why DEI data may lie with London Business School Professor Alex Edmans here.

The Silicon Surge

Malaysia's Semiconductor Momentum: A Threat to China's Dominance?

Semiconductor companies are fleeing China after a year of massive outflows and are reallocating capital from China to Southeast Asia to avoid conflicts and mitigate business risk.

Malaysia is on the verge of becoming a semiconductor hotspot. For 50 years, Malaysia has been a top back-end of the semiconductor supply chain, specifically for packaging, assembling, and testing chips. Companies worldwide, from Intel to ASML, are using capital expenditures to fund facilities in Malaysia to extricate themselves from China.

Before U.S. regulations cracked down on China, only 16 semiconductor companies operated in Penang, compared to roughly 50 currently. Foreign investments in the nation hit nearly $40 billion last year, more than twice the total generated in 2019, and they could continue to rise since the industry is focusing on packaging more minor chips known as chiplets. Chiplets require specialized manufacturing, which the region is known for. Before packaging rose in demand, it wasn't crucial in the supply chain, so it wasn't on investors' radars.

Chiplets, however, could be a workaround for Chinese companies to circumvent U.S. export bans.

Factories worldwide are still allowed to produce less-advanced chips, such as chiplets for China, and the U.S. Commerce Department is wary they can manipulate the products into more powerful chips. If China were to become successful at this, it could achieve a similar level of computing power to the chips that the U.S. initially blocked from it.

According to Bloomberg, 38% of chip packaging worldwide comes from Chinese companies, compared to only 13% from Malaysia. While semiconductor companies are pouring money into Malaysia, this could benefit China in the long run, as opposed to the U.S. and the rest of the world.

It's not just America and its allies that are steering away from Beijing and investing in Malaysia; Chinese companies are also. Due to ongoing fear that the U.S. government will continue cracking down on regulations in the future, Chinese companies are expanding to the region to avoid losing business and government intervention.

Despite the rising demand for packaging, the number of qualified workers in Malaysia and around the world is still below average. If Malaysia wants to become the next semiconductor hot spot, it must offer competitive wages and train its employees to retain them, which is expensive.

The tech war between the U.S. and China will continue to cause supply chain disruptions and regulatory backlash for the foreseeable future. This ongoing conflict reshapes the semiconductor industry and drives unprecedented multi-billion-dollar investment decisions like those Malaysia is enjoying.

Straight from Strive

Is Disney More Concerned With Mouseketeering or Electioneering?

On Wednesday, Disney defeated Trian Management's board nominees in one of the most watched elections in corporate history. Disney fought hard. Some are questioning if the fight was fair.

In a new piece for The Daily Caller, Strive Head of Corporate Governance Justin Danhof unpacks the drama and what it means for investors.

Read the full article here.

Voting Spotlight: Goodyear

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

Last week, Strive voted against the executive compensation package at The Goodyear Tire & Rubber Company. The company withholds ten percent of potential bonuses hostage, making them contingent on ESG factors. Goodyear execs can also benefit from an up to 25 percent modifier awarded based on how much progress the company has made towards long-term environmental and social goals, such as reducing 46% of Scope 1 and Scope 2 emissions, and 28% of certain Scope 3 emissions, by 2030.

Because Strive believes executive compensation should be tied exclusively to financial performance, rather than non-financial metrics, Strive opposed Goodyear's executive compensation plan.

The Best of the Rest

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

- Disney CEO addresses politics at annual meeting after defeating shareholder activist Nelson Peltz; "we know our job is not to advance any kind of agenda," Iger responded to question asking Disney to stay out of social issues.
- Environmental activists hijack shareholder process; "a wave of destructive proposals began after a 2020 briefing to the Biden transition team."
- Corporate America embracing gender-neutral titles; "chairman" is now "chairperson," but will it last?
- Activist targets Kraft Heinz over recycling policy:; shareholders to vote on proposal at upcoming meeting.
- Are investors eyeing India's equity markets following China risk concerns? "Better governance and a clear economic path may put India in the lead."
- Idaho considering legislation to protect investors and banking clients from discrimination based on ESG factors.
- SEC agrees to pause climate rules while litigation is pending.

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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.

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