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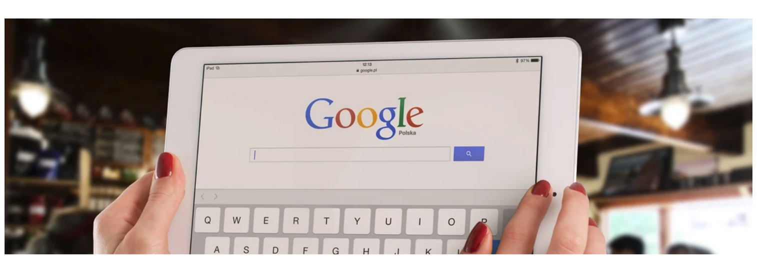
# The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

April 30, 2024

**This Week:** Google fires 28 employees for bringing politics to work; NY delays wind turbine projects; an Eye on Energy examines China's EV ambitions.

## Google To Protesting Employees: You're Fired



Google fired 28 employees who protested the company's contract with Israel, the Wall Street Journal reported last week.

**The protests:** Per Google's security head, workers at the company's New York and Sunnyvale campuses "took over office spaces, defaced our property and physically impeded the work of other Googlers." Footage features tech workers holding signs reading "no tech for Israel's apartheid" and "we won't work for genocide."

**A new bright line:** While companies like Disney and even Google have a history of bowing to employee pressure on political issues, companies are now starting to see the downside risks. "Acting on employee demands risks offending workers with opposing views," the Wall Street Journal reports. It also risks offending customers, suppliers, investors, and regulators too.

**Google's message:** Following the firings, Google CEO Sundar Pichai sent an internal memo explaining the company's view (emphasis ours):

> [We need to] work with greater focus and clarity towards our mission. However, we also need to be more focused in how we work, collaborate, discuss and even disagree. We have a culture of vibrant, open discussion that enables us to create amazing products and turn great ideas into action. That's important to preserve. But **ultimately we are a workplace** and our policies and expectations are clear: this is a business, and **not a place** to act in a way that disrupts coworkers or makes them feel unsafe, to attempt **to use the company as a personal platform, or to fight over disruptive issues or debate politics.** This is too important a moment as a company for us to be distracted.

**The takeaway:** More and more companies are rejecting the politicization of the workplace. And with good reason. But the smartest companies will see what happened at Google and update their policies now. Companies that proactively provide employees with their revised guidelines may be able to ward off disruption, protests and firings altogether. The employees fired last week might have been taken by surprise, but employees fired next week shouldn't be.

## Blowing in the Wind: NY Cancels Three Wind Projects

Last week, New York cancelled three offshore wind projects, Politico reports. The cancellations make it exceedingly unlikely that New York will be able to achieve its goal of 70% renewable energy by 2030 and deal a similar setback to the Biden Administration's environmental goals.

**Technological infeasibility:** Per reporting from both Politico and the Wall Street Journal, the cancellations come because the technology needed is simply not ready for prime time. The contracts called for enormous, 18-megawatt turbines. But the handful that have been deployed so far have been toppling over in the wind, leading to downtime and expensive repairs. As a result, GE has stopped making them.

**Pricey Projects:** Completing the projects with a greater number of smaller turbines is cost prohibitive—despite the fact that New York had agreed to pay $150 per megawatt hour for the next 25 years for electricity generated by the projects (the wholesale price for electricity generated by gas-fired plants, by comparison, is $30 per megawatt hour).

**Little Shareholder Value:** Remarkably, the cancellation of these nine-figure projects has had little to no impact on the share prices of the offshore wind developers who held the contracts.

- Per Barclays analysts, "investors were[n't] reflecting any value creation from RWE's New York project," and so its cancellation didn't move the stock price much.
- Citi analysts made similar remarks about U.K. National Grid, predicting the cancellation would have "only limited valuation impact."

But if these major projects weren't projected to affect these publicly-traded energy companies' profit and loss statements anyway, why were they pursuing them in the first place?

**Net Zero Dreams:** The cancellations should also provide a note of caution for all companies who have set net zero goals. The technological assumptions underlying net zero timelines rapidly change, and economic feasibility along with them. Companies that make bold climate commitments are betting on technological progress and public policy decisions that are outside of their control. Such bets should not be made so breezily.

## Doctors Oppose Implicit Bias Training

The nonprofit medical organization "Do No Harm" is launching a training that attempts to fight the bias inherent in unconscious bias trainings, the Wall Street Journal reported Friday.

**Biased trainings:** Self-described "unconscious bias" trainings took off as companies and professional organizations sought ways to fight microaggressions and systemic racism. The trainings are based on "implicit association tests" that purport to show that white people are racist and generally treat other white people more favorably than members of other races. For doctors, the implication is that white doctors are killing black patients.

But the scientific underpinnings of the test are shoddy and mostly ideologically driven. That's what bothers the doctors at Do No Harm most:

> [Proponents of unconscious bias trainings] want every medical professional in the state to accept the woke party line on race. But our course goes in a more ethical—and less political—direction. Instead of teaching implicit bias as fact, we're telling medical professionals the truth—that this training is grounded in falsehood and is a direct threat to the health and well-being of patients.

**What the doctors ordered:** Their training exposes the scientific weaknesses of unconscious bias trainings and the junk science it relies on. In doing so, the doctors hope to combat racism instead of spread it.

**A prescription for other companies:** While the new, evidence-based training is targeted at doctors, the pushback against unconscious bias trainings could not come at a better time. Per the organization CEO Action for Diversity and Inclusion, over 2500 CEOs have pledged to force their employees to undergo unconscious bias trainings, including GM, Xerox, Smucker's, General Electric, and more.


### China's Electric Vehicle Ambitions

China is taking every step to gain economic power over the United States by capturing manufacturing opportunities across Southeast Asia and South America. Increasingly, those involve making electric vehicles.

In 2023, China produced roughly 70% of all new electric vehicles (EVs) worldwide. The booming Chinese EV industry benefits immensely from government regulations, high demand, and innovation. China is now developing regional infrastructure projects linked to its battery electric vehicle (BEV) value chain, particularly in Brazil and Thailand. Chinese companies have purchased electricity generation, transmission, and distribution assets, and BYD plans to open three new factories in Brazil.

China has never before expanded beyond Asia for its manufacturing operations, which poses a potential threat to the U.S. Through the meteoric rise of automakers like BYD, China is on-track to crowd out Western competitors by flooding the market with cheap, high-quality EVs. And by expanding in countries like Brazil and Thailand, Chinese EV-makers can dodge U.S. tariffs.

These two manufacturing and exporting markets, if combined, would swiftly destabilize the global automotive market, displacing U.S. and Japanese production. China aims to rapidly seize market share, making it challenging for Western competitors to compete on price without incurring significant losses.

A recent U.S. Commerce Department investigation found that Chinese BEVs threaten national security and impact North American trade dynamics. While the 27% U.S. tariffs on Chinese-built BEVs have kept U.S. imports low, China has endeavored to work around the tariffs, making Mexico the top trading partner with the U.S. Monday's news that Chinese regulators approved Tesla's "Full-Self-Driving" feature displayed Chinese control of the EV market in the fine print: Tesla agreed to partner with Chinese tech giant Baidu for mapping and navigation.

The U.S. government must weigh whether to allow China to seize the entire EV supply chain, much as it allowed semiconductor manufacturing to move to Asia decades ago. But, like chips, EV technology may have civil and military value, so outsourcing its production to a strategic competitor is risky. America may choose to escalate its protectionism in the EV arena of its trade war with China.

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### Voting Spotlight: Citigroup

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

Last week, Strive voted against a proposal at Citigroup asking the bank to issue an animal welfare report. The proponent shames Citigroup for its "abysmal" record on animal welfare issues, and implores the bank to consider adopting practices like those of Triodos Bank, which refuses to provide banking services to any company that tests non-medical products on animals or engages in what the bank describes as "factory farming."

On its face, the proposal was focused on fighting animal cruelty, not generating financial return. However worthy or unworthy that social goal may be, we do not believe it is in Citigroup's long-term financial interest to exclude customers based on moral criteria, particularly as federal and state officials begin cracking down on such practices. Because we do not believe the proposal is likely to generate additional returns for investors, we voted against it.

### The Best of the Rest

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

- China risk reaching all time highs: "S&P 500 large-cap companies have a near-record reliance to sales in China at a time when the country is still contending with a slump in the real estate industry, as well as a greater push by Beijing to buy domestic," CNBC reports.
- Green financing, abortion rights, labor issues on the ballot. Get caught up on the hot issues for this year's proxy voting season.
- "ES" vs. "G," "You can't have it all" posits Notre Dame Law Professor in new academic research on "the corporate governance trilemma."
- Company boards complain about proxy advisors, but are they scapegoats? "If investors blindly follow proxy advisors, investors are to blame," London Business School Professor Alex Edmans tells the Financial Times.
- FINRA board member praises stakeholder capitalism, saying "the agency has always served the interest of a diverse group of stakeholders" and must focus "on broader societal issues," while disputing that "ESG is about corporations pushing a political agenda."
- ESG increasingly part of CFOs' core business plans; 2024 survey of 600 large company CFOs shows 20 percentage point increase of CFOs integrating sustainability into business plans over 2023 numbers, to 53%.
- Publicly-traded company with purpose "to build A Better Tomorrow" and hashtag #BeTheChange pledges to fight modern slavery, advance sustainability, protect the environment and deliver a positive social impact. The paragon of virtue in question? British American Tobacco.

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**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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