STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Bill takes heat in closed-door session; An Eye on Energy looks at Russian uranium; Strive helps elect three directors to Norfolk Southern's board.

Ackman Subjected To Struggle Session Over DEI Critiques

Hedge fund manager and outspoken DEI critic Bill Ackman was scolded over his views at a closed-door session at a Beverly Hills business conference last week, Bloomberg reports.

The struggle session:

> In a small side room, roughly 40 people, including some of Wall Street's most senior executives of color, crowded around a rectangular array of tables for an invitation-only panel and confronted hedge fund manager Bill Ackman for his attacks on diversity, equity and inclusion, or DEI, initiatives, according to five attendees.
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> For about an hour, Ackman was criticized for his public denunciation of DEI and for expressing views that participants said were detrimental to the progress of women and people of color in America. The money manager, who has labeled DEI "inherently a racist and illegal movement," faced backlash from both panelists and audience members, the attendees said.

Not the first attacks: Of course, Ackman has drawn harsh words in the past for his remarks. Derrick Johnson, the head of the NAACP, claimed that the attacks on then-Harvard President Claudine Gay were "nothing more than political theatrics advancing a white supremacist agenda." Now, the attacks are coming from Wall Street, and made behind closed doors.

Ackman standing strong: When asked about the session, and whether his position has changed, he referred Bloomberg to his lengthy January post on X. "DEI [i]s not about diversity in its purest form, but rather DEI [i]s a political advocacy movement on behalf of certain groups that are deemed oppressed under DEI's own methodology," he wrote at the time.

At least some of corporate America, it seems, is starting to agree.

New Carbon Offset Shenanigans

More carbon offset shenanigans are afoot, per the Financial Times last week.

A BOGO deal too good to refuse: The Alberta government wanted to incentivize Shell to build a carbon capture facility in its province. But rather than offer tax breaks or cash (which would cost Alberta money), it offered Shell something even more valuable: The ability for Shell to sell two carbon credits for every one ton of carbon it actually captured, instantly doubling its profits.

Government-sanctioned fraud? Properly understood, the scheme smells a lot like government-assisted fraud. It's a promise from the Alberta government that Shell can tell its carbon-credit buying customers that they are getting the equivalent of Shell's removal of one ton of carbon from the atmosphere, when in reality, Shell only removed half.

Shell's defense: Shell defended the move, claiming that the scheme was merely a "market incentive" that was necessary for decarbonization.

That's crazy talk. It would be like the government telling Merry Maids that they can tell clients they are getting one hour of housecleaning services, but then leave after 30 minutes. Hopefully no one notices! But if they do, Merry Maids can helpfully explain that it would be too expensive to provide a full hour of housekeeping services at their advertised price and that "market incentives"—like the ability to mislead the customer—were necessary to establish its business.

A victimless crime? The difference, of course, is that someone who buys housekeeping services *actually cares* if their house gets clean. A company who buys carbon credits, in contrast, *does not typically care* if the planet is getting cleaner. They care about the ability to *claim* they are helping the planet get cleaner.

For that reason, it's no surprise that Shell's biggest customers—including Chevron, ConocoPhillips and Imperial Oil—declined to comment. They aren't buying a carbon credit because they want precisely one ton of carbon removed from the atmosphere; they're buying it because they want a social license to operate in the fossil fuel industry.

Strive's Take: If carbon offsets are untethered to reality, maybe companies should stop throwing away shareholder money to buy them.

Prison Reform Activists Launch New Index

Prison reform activists are now urging investors to steer corporate America's attention towards their social goals, Fast Company reports.

The Issue: Proponents for prison reform have long called for Wall Street, pension funds and university endowments to divest from private prisons, but now they've gone further: asking investors to make investment decisions based on how highly a company scores on their "decarceration index" and asking companies to make changes to ensure inclusion on the list.

"Decarceration Index," Explained: Per the article, *de*carceration is the opposite of *in*carceration. Accordingly, the index favors companies that do not use prison labor and have policies in place to promote hiring ex-cons and other "justice-involved individuals." The 50 highest scoring companies make the cut.

JP Morgan: The activists cite JP Morgan as a company that scores well on their index, in part because JP Morgan aims to hire 10% of new employees each year that have criminal records.

Social Justice At What Cost: Proponents claim the new index has outperformed the S&P 500 over the past two years, but that statement appears to be substantiated only by backtesting. One concern is that the index's criteria is somewhat opaque. It's therefore possible that the index creator perpetually rejiggered and reweighed the social justice criteria until they found a formula that would show outperformance in the backtest. And two years of backtested outperformance is nothing to brag about, anyway.

The Goal: "The CEO of BlackRock, Larry Fink, said [in his annual CEO letter] 'Climate risk is material risk,' and so every investment decision needs to incorporate climate impact into how money is allocated," [the index's founder] Tatum-Edwards says. "That's what I want for decarceration—for it to be a universal financial metric."

Not Every Social Metric Is A Financial Metric. Companies have one legal duty: maximize their financial value for shareholders. In Strive's view, hiring the most qualified person for every role—including, at times, candidates that may have committed crimes in the past—is simply good business. But companies should not adopt quotas or specialized trainings or other policies that they do *not* believe serve their business interests to please progressive activists, and they should not subordinate shareholders to serve outside social goals.

America tries to wean itself off Russian uranium

The war in Ukraine is reshaping the global energy landscape, and the nuclear fuel market is poised to undergo substantial changes. On April 30, the U.S. Senate unanimously passedHR 1042, barring the import of low-enriched uranium from Russia. This move, once signed by the President, will lead to a ban on imports 90 days after its enactment, with temporary waivers in place until January 2028 and a complete ban through December 31, 2040. Uranium miner stocks immediately surged.

Russia's energy sector remains dominant in the conversion and enrichment of uranium.Uranium concentrateU3O8is the first stepin the nuclear production process. The conversion of U3O8 into uranium hexafluoride (UF6) creates enriched uranium, a primary input to fabricate the pellets used as fuel.

The U.S. has the largest nuclear fleet in the world, with94 reactors, and nuclear power accounts for approximately18% of our electricity generation mix. However, most uranium in our reactorscomes from outside the U.S. since it's less expensive. In 2022, 95% of theuranium purchasedby U.S. nuclear power plant operators came from outside the U.S., with Canada as the most significant source at 27%, followed by Kazakhstan with 25%.

While Russiadominates most uranium enrichment services, accounting for roughly 44% of the global supply, the U.S. onlypurchases about12%. However, it still raises concerns since there are only ahandful of operationaluranium conversion and enrichment facilities worldwide.

In the 1970s, the U.S. was self-sufficient in uranium, but today, we rely on a single operating enrichment plant owned by Urenco. To address this vulnerability,Congress may implement financial incentives like those introduced in the 1940s and 1950s to boost domestic uranium production.

It's not just Russia we should be concerned about. China also holds significant market share, with 25% of global conversion capacity and 16% of enrichment capacity. Addressing one supply chain risk may inadvertently expose our nuclear plant operators to another.

America is determined to increase the pace of uranium conversion, enrichment, and fuel fabrication. In the meantime, between now and 2030, the U.S. may also need to increase supplies from Australia and southern Africa to replace Russian imports, or else our nuclear operators will need to exercise the waivers afforded by HR1042 until 2028.

Three Strive-Supported Board Nominees Secure Victory at Norfolk Southern

Last week, we highlighted our letter to fellow shareholders of railroad company Norfolk Southern, supporting Ancora's nominees for seven board seats.

This week, we're thrilled to report that three of Ancora's nominees received majority support. Ancora praised the result as "an extremely positive development for shareholders" and "[t]he first step toward turning [the company] around." Norfolk Southern's response was more muted, welcoming the new board members and promising to "work constructively and collaboratively on behalf of our shareholders unlocking the full potential of our powerful franchise." Here's to hoping the new team is able to work together to drive shareholder value, no matter where the directors may be from.

PEPSI

Voting Spotlight: Pepsi

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

Last month, Strive voted against a proposal at Pepsi asking the company to conduct a racial equity audit. The proposal criticized Pepsi for its "advertisement featuring a wealthy White woman giving a police officer a Pepsi during a time when Black Lives Matter protestors were working to bring attention to police brutality against Black Americans." It further faulted the company for "advertising low-nutrition products more heavily in communities of color and encouraging a hostile work environment." The proponents therefore asked Pepsi to conduct a third party audit on how to "improv[e] the racial impacts of its policies, practices, products, and services."

As Strive has previously explained, racial equity audits are non-neutral evaluations designed to shame companies into adopting radical DEI policies at the expense of merit. Such audits are focused on advancing racial justice as seen through a specific ideological lens; they are uninterested in creating shareholder value. Such reports are expensive, and, particularly after *Students for Fair Admissions v. Harvard*, create legal and commercial risks for the companies that undertake them. For these reasons, we voted against the Pepsi proposal.

The Best of the Rest

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

- CalPERS threatening to oust Exxon board members in retaliation for Exxon's suit against climate shareholder activist; Exxon's response: "The goal of our lawsuit is simple—we seek clarity on the SEC rules to stop the continued abuse of the proposal process."
- Is Texas more ESG friendly than Delaware? Three lawyers make the case that it is, arguing that Texas is trying to lure companies from Delaware by making itself the most deferential to management, even if that deference is given towards management's pursuit of social goals.
- Brands face shareholder pressure on overtly politicized advertising; "Our goal is to get companies to return to their fiduciary duties, which is to say, not to put the partisan policy preferences of executives or of the executives of the giant investment houses first," proponent explains.
- Biden administration set to issue new China tariffs; semiconductors, electric vehicles, and solar panels likely to be targeted.
- Prominent lawyer Marty Lipton extolls the virtues of stakeholder capitalism: "The emerging consensus about the essential role of stakeholder governance in America's long-term corporate, economic, national security, and societal prosperity, heralds a development long overdue: the eclipse of shareholder primacy."
- More on campus protests to divest from Israel: "[E]ndowments can't be in the moral adjudication business—and they should never have headed this way."
- Barclays faces shareholder pressure not to finance fracking; proponent displeased with Barclays's continued financing of U.S. oil and gas projects.
- Oklahoma Attorney General axes legal team after judge temporarily blocks anti-ESG law; law would prevent state from contracting with companies that boycott oil and gas industry, but the judge ruled the law is likely too vague.

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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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