STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Texas schools fund pulls $8.5 billion from BlackRock over ESG; The Silicon Surge examines what Nvidia's new AI chip means for the market.

Texas Pulls $8.5 Billion From BlackRock Over ESG

A Texas schools fund pulled $8.5 billion in investments from BlackRock over ESG investing, Fox Business reported last week.

Texas State Board of Education Chairman Aaron Kinsey announced the move on Tuesday, explaining that the Texas Permanent School Fund (PSF) owes a fiduciary duty to safeguard and grow the money entrusted to its care. Investing with BlackRock, Kinsey explained, is not consistent with that mandate:

> BlackRock's dominant and persistent leadership in the ESG movement immeasurably damages our state's oil & gas economy and the very companies that generate revenues for our PSF. Texas and the PSF have worked hard to grow this fund to build Texas' schools. BlackRock's destructive approach toward the energy companies that this state and our world depend on is incompatible with our fiduciary duty to Texans.

Derek Kreifels, CEO of the State Financial Officers Foundation heralded the move as a "massive blow against the scam of ESG."

The move by Texas PSF is the latest in a wave of divestitures by states concerned about BlackRock's pro-ESG investing strategy. In late 2022, Florida pulled $2 billion from the trillion-dollar asset manager, while Utah, Louisiana, South Carolina, and Alabama all yanked nine-figure sums.

Unilever and Ben & Jerry's To Get A Corporate Divorce

Unilever plans to spin off the notoriously political Ben & Jerry's brand into an independent company, Unilever announced last week.

The announcement comes after years of social activism has created a wedge between the hippie-founded Ben & Jerry's brand and its buttoned-up Unilever parent.

Since Unilever acquired Ben & Jerry's in 2000, the ice cream brand has enjoyed a unique corporate structure where it retains an independent board, with the freedom to pursue social missions alongside corporate objectives. This has allowed Ben & Jerry's to wade into controversy, sometimes dragging Unilever along with it.

In 2018, for example, Ben & Jerry's faced backlash for launching its "Pecan Resist" ice cream, which was meant to "fight[] against President Trump's regressive agenda," according to the brand's tweet. And in 2021, Ben & Jerry's halted sales in Israel to protest Israeli treatment of Palestinians in Gaza. Unilever then sold its Ben & Jerry's Israeli business to a different entity, leading Ben & Jerry's independent board to sue its corporate parent. Most recently, it tweeted "Alabama, here's some advice from an ice cream company who knows a thing or two about frozen stuff: Frozen embryos are not children."

Unilever has indicated it is open to a sale of the Ben & Jerry's business at the right price. But a new buyer would similarly be subjected to Ben & Jerry's unusual corporate structure and accompanying social activism. In this case, buyer beware.

Unions Using ESG to Push Companies to Prioritize Union Over Workers and Investors

Unions are increasingly using their insider positions as corporate shareholders to push companies to enact union-friendly policies, often to the detriment of both investors and workers themselves, explains a new piece in the New York Post.

The authors point to Starbucks as a case study. Earlier this year, the unions launched a campaign to replace several Starbucks's board members with pro-union, former Democratic officials. Days before shareholders were set to vote on the union's nominees, Starbucks agreed to a collective bargaining framework. In exchange, the unions withdrew their nominees.

The move is not unusual. Unions and pension funds are often the most active shareholders at companies' annual meetings, frequently advocating for union-friendly reforms under the guise of ESG. The authors note that in many instances, they ask companies to adopt policies like "card checks," which allow union members to see who voted for and against unionization, rather than secret ballot. Such policies allow union advocates to pressure workers into voting "yes," even when workers might otherwise prefer not to join a union.

Unsurprisingly, union-backed shareholder activism tends to hurt investors. The authors note that "unionized companies can forfeit 5% to 10% of shareholder value, largely because they lose flexibility." Other research bears this out. One study, for example, found that companies that received union-backed proposals advocating for social agendas were valued 14% less than similar companies that did not. Another study found that stock prices suffer more after union-sponsored shareholder proposals that pass versus those that fail, suggesting that such measures come "at the expense of other shareholders."

The recent Starbucks battle is therefore a reminder that while ESG advocates may claim they are advocating for the long-term financial interests of investors or for the greater good, in many cases, they are simply advocating for themselves.

The Silicon Surge

Nvidia Unveils New Chip Designed for AI

Nvidia held its annual GTC event this week, during which its CEO, Jensen Huang, announced a new AI-accelerating platform.

Huang said,"We need bigger GPUs," also known as graphic processing units, before revealing its newest product, Blackwell, to the audience. GPUs were originally designed to enable video games, but the math needed to generate pixels turned out to be perfectly suited to doing the many parallel calculations necessary for AI. Blackwell is Nvidia's first chip designed to be a generative artificial intelligence platform. Compared to Nvidia's current chips, the new ones are 4x faster at training LLMs (Large Language Models) like ChatGPT, while being 30x faster at responding to user queries and 25x as energy efficient.

Wall Street is bullish. After the announcement, sell-side analysts raised their NVDA price targets by 15% to almost 40%, with some at $1100 now. They're claiming Blackwell is unmatched in the marketplace, and no competitor will come close to it in the foreseeable future.

The company's financials also came in hot last quarter. Nvidia's Q4 2023 earnings beat expectations. Its revenue rose 265% from a year ago to $22.1 billion, beating estimates of $20.6 billion.

The Magnificent Seven is thriving thanks to Nvidia. Apple, Microsoft, Meta, and Amazon rely on Nvidia's accelerator chips to create their AI-generated products. In January, Meta declared it would purchase over 350,000 of Nvidia's H100 chips by the end of 2024 to help build AI computing content. Alphabet is pouring capex funding into developing its AI chips but will also rely on Nvidia for supplies.

It's not just big tech benefiting from the AI boom; healthcare is also.

While medical devices scan and detect things inside the body, the systems generate massive amounts of visual data, which humans need to understand and diagnose. That's where Nvidia comes in.

Medtronic, a healthcare technology company, partnered with Nvidia to create a more effective endoscopy platform to help detect colorectal cancer, the number one cancer that kills men in the U.S. Nvidia's high-speed computing platform delivers AI at scale, which will allow doctors to detect cancer during real-time colonoscopies.

Johnson and Johnson's MedTech unit is also working with Nvidia to produce AI-generated platforms for surgeries. Utilizing AI will save doctors hours of time-consuming work, such as post-operation documentation, and assist with training videos. MedTech's platform stores data for about 75 million procedures annually, ranging from kidney disease to stroke, so the market opportunity for AI in healthcare is significant.

From big tech to healthcare, Nvidia is creating the next industrial revolution. Its first purpose-built AI chip will usher in a new wave of innovation.

Voting Spotlight: HEICO Corporation

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

Earlier this month, Strive supported the executive compensation package at HEICO, an aerospace and electronics components manufacturer.

Unlike so many companies that have jumped on the ESG bandwagon, HEICO puts shareholders first. In its proxy statement, HEICO expressly states that it "[m]aintain[s] executive compensation aligned with shareholder interests" and refuses to "[p]lace social and political objectives above" those of shareholders. Bonuses are awarded based solely on the company's ability to meet predefined financial targets, including growth in net income, EBITDA, and operating cash flow. Because this philosophy aligns with Strive's belief in shareholder primacy, Strive supported HEICO's executive compensation policy.

Strive in the News

Strive pens new piece on China risk for The Epoch Times

Week after week, China is making headlines as its economy continues to falter. But the macroeconomic factors leading to its decline have remained something of a mystery. How could a country that once touted the world's largest population and fastest growing economy suddenly hit an economic dead end?

Strive CEO Matt Cole and Portfolio Manager Jeff Sherman answer this question in a new piece entitled, "Communist China's Rise Sowed the Seeds for its Fall," published in The Epoch Times.

The full article is available here.

The Best of the Rest

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

- Ben Carson calls DEI "illogical if you are looking for excellence"; says many companies embracing DEI initiatives are "not taking the long view," but rather trying to get praise and accolades from activists.
- EU Chamber of Commerce in China says uncertainty and "draconian regulations" have exponentially increased risks of doing business in China; "companies are having to make some very tough decisions about how, or in some cases if, they can continue to engage with the Chinese market."
- CNBC calls out proxy advisor Institutional Shareholder Services (ISS) for its "vast" power over proxy votes; ISS representative attempts to deny the claim.
- Lawmakers subpoena testimony from head of ESG activist group; As You Sow CEO Andrew Behar is set to testify Thursday.
- EPA releases new auto emissions standards; regulation will push EVs and pressure companies to eliminate gas-powered cars.
- "[B]usiness ha[s] moved from greenwashing to a kind of woke whispering" Fortune reports, praising "the number of companies that have rebuilt corporate strategies around the climate challenge" even amid pushback.
- "A woker America is a weaker America," Representative Jim Banks says, explaining his Congressional memo highlighting ESG and DEI requirements in the CHIPS Act, following up on Strive's article breaking the story. The White House issues a furious response.

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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.