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STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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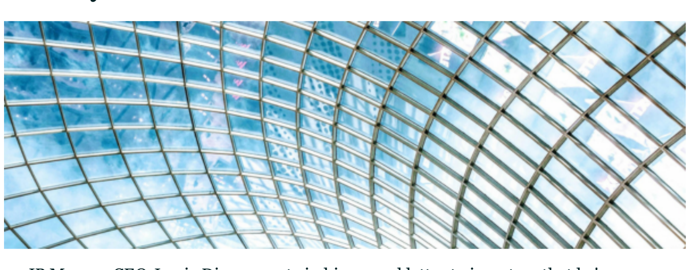
This Week: ESG may shrink public markets, JP Morgan CEO suggests; midcaps are back in vogue; An Eye On Energy explains how weather crashed natural gas prices.

JP Morgan's Jamie Dimon Worries Stock Market Is Shrinking; Bank's Own ESG Policies May Be Partly To Blame



JP Morgan CEO Jamie Dimon wrote in his annual letter to investors that he's worried that the stock market is shrinking, CNN reported last week. But should JP Morgan and its ESG policies share some of the blame?

A shrinking public market: In 1996, there were 7,300 publicly traded companies in the U.S. Today, there are about 4,300. The number of U.S. companies hasn't shrunk, but now, many more companies are privately held.

The downsides: A greater percentage of private companies means less transparency in the U.S. market, less opportunities for the public to invest and fewer ways to share in the upsides of American prosperity.

Why now? Dimon points to several reasons companies have tended to stay or go private, many of which can be traced to the stakeholder capitalism movement:

- *Reporting costs:* Public companies do a lot more reporting than private companies. And ESG proponents want even more. Dimon specifically notes growing demands for "environmental, social and governance information." That's expensive. While not specifically mentioned in his letter, the SEC's new climate disclosures could be Exhibit A, as the new rule may cost some public companies upwards of $500,000 each year.
- *The "hijacking of annual shareholder meetings":* "One of the reasons it is less desirable to be a public company is because of the spiraling frivolousness of the annual shareholder meeting, which has devolved into mostly a showcase of grandstanding and competing special interest groups."
- *Proxy advisory services:* ISS and Glass Lewis are adding fuel to the activists' fire. They have no fiduciary duty to maximize value. More companies are opting out of the charade by going private.

Hypocrisy afoot? Dimon decries that ESG activism is hurting U.S. public markets, but Dimon himself signed the Business Roundtable Statement on the Purpose of a Corporation endorsing stakeholder capitalism and JP Morgan's own voting guide shows it's engaged in the same shenanigans:

- "We believe that good corporate governance policies should consider the impact of company operations on the environment... [We will v]ote against the chair of the committee responsible for providing oversight of environmental matters and/or risk where we believe the company is lagging peers in terms of disclosure, business practices or targets."
- "We will utilize our voting power to bring about change where boards are lagging in gender and racial/ethnic diversity."
- If the one-sided political activism isn't clear enough, JP Morgan generally "vote[s] against proposals asking the company to affirm political non-partisanship in the workplace."

What's the deal? Dimon's newfound distaste for ESG activism comes as shareholder activists have moved to strip Dimon of his title as board chair, arguing that good governance requires separation of the CEO and chairman roles.

The upshot: Maybe now that shareholder activists have bit the hand that feeds, JP Morgan will take a closer look at its voting policies.

Investors and Analysts Eyeing Midcap Stocks

"Midcap stock ETFs may be back in vogue," Yahoo Finance reported last week, as investors look for diversification beyond the mega-cap stocks.

The Middle Ground: Midcaps—companies valued between $2 billion and $10 billion, falling just behind the S&P 500—include household names like Dunkin Donuts and Campbell's Soup. They're often large enough to be mature companies with stable balance sheets, but small enough to offer substantial growth potential.

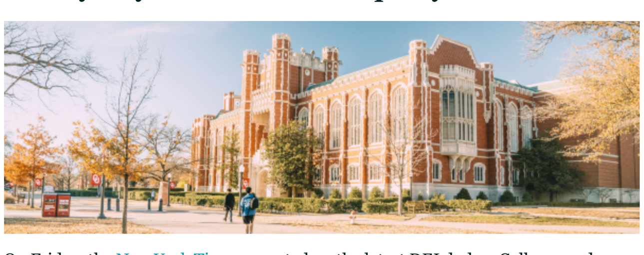
The Wall Street Journal's Take: Yahoo Finance isn't the first to notice growing investor interest. Earlier this year, the Wall Street Journal wrote:

> Midcap stocks are like the middle children of the investing world, sometimes ignored by investors who focus on their large-cap and small-cap siblings. But some market professionals say that these midcap-shunning investors are making a mistake—and that now may be a good time to buy.

The Numbers: Yahoo Finance reports that "consensus estimates for large-cap year-over-year earnings for 2024 is 12.5%," but that figure "jumps to 20.5% for midcap stocks."

The Bottom Line: With the Magnificent Seven driving much of the growth in the S&P 500, now may be a good time to diversify holdings through midcap stocks.

DEI By Any Other Name Is Equally Destructive



On Friday, the New York Times reported on the latest DEI dodge: Colleges and universities are scrambling to rename DEI departments amid legislative efforts to dismantle them. The University of Oklahoma's diversity office is now its "Division of Access and Opportunity." Florida State University's Equity, Diversity and Inclusion Office is now "the Office of Equal Opportunity Compliance and Engagement." The list goes on.

The plan is for the name to change, but the programs to stay the same.

"It's the same lipstick on the ideological pig," David Bray, a finance professor who is gay and opposes diversity programs told the New York Times. "As soon as D.E.I. was uncovered as political left, they now reinvent the language and have morphed into the 'sense of belonging' crew."

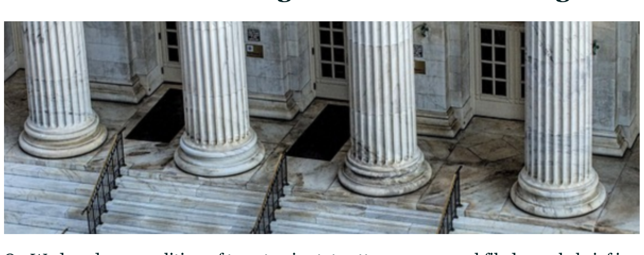
Is corporate America next? Where academia leads, corporate America often follows. As Strive's Laura Brady has explained, DEI hushing is already on the rise. And now there is talk among corporate HR experts about replacing the DEI acronym with new lingo—a linguistic cat-and-mouse game reminiscent of the one played over ESG, which has been rebranded ad nauseum as corporate social responsibility or stakeholder capitalism or sustainability.

What companies are saying: The New York Times article comes just one day after the National Center for Public Policy Research published a piece detailing its discussions with companies on their DEI efforts. Per the article, companies:

- Refuse to explain whether, or how, a representation "goal" is different from a racial "quota";
- Claim to hire based on merit, while admitting to considering factors other than merit; and
- Justify discrimination by arguing that their customers are demanding it.

The way forward: Companies should ditch the lipstick and the pig. It's time to scrap DEI policies, whatever they may be called, and restore excellence by striving for meritocracy in all employment decisions.

States Continue To Fight DOL ESG Investing Rule



On Wednesday, a coalition of twenty-six state attorneys general filed a reply brief in their appeal challenging the Department of Labor's 2022 rule loosening restrictions on fund managers' use of pension fund money to promote ESG goals.

How We Got Here:

- *The regulation:* In 2022, the Department of Labor issued a new regulation encouraging ESG investing by allowing private pension fund managers to consider "collateral benefits other than investment returns" when making investment decisions, at least so long as two investment opportunities appear equal.
- *A swift reaction:* Congress moved to squash the rule, but President Biden used his first presidential veto to overturn the law, allowing the regulation to go into effect.
- *The lawsuit:* Twenty-six state attorneys general and Liberty Energy sued to vacate the rule, arguing that it will hurt pensioners.

The Brief: The brief argues that "[t]he 2022 Rule consistently loosened restrictions on ESG considerations and reduced oversight instead of protecting the financial interests of retirement plan participants." Per Plaintiffs, the rule violates both a 1970s-era statute called ERISA, which requires pension fund managers to consider financial value alone, and the Administrative Procedure Act, which allows courts to overrule regulatory actions that are "arbitrary and capricious."

Strive's View: We've long argued the rule will harm pension fund participants, including in our Wall Street Journal article here.

What's Next: The court will likely hold oral arguments later this spring and issue a decision in the coming months.

How Weather Made Natural Gas Prices Fall

The U.S. shale revolution has had many impacts across every traded energy commodity, and our role as a leading exporter of Liquified Natural Gas (LNG) has been a stabilizing force in the global market. Natural gas prices have been low, and mild winters will likely sustain high inventories in European and the U.S. through 2025. Over the next three years, LNG will emerge as a critically important commodity market that will be highly volatile thanks not just to politics and geopolitics, but to the weather.

Weather is an important source of uncertainty in energy markets. Forecasts use weather data to project supply and demand and help decision-makers better understand expected energy consumption, prices, and expenditures. As a result of the warmer weather and increased level of natural gas supply, pressure on the international LNG prices have been suppressed.

This cushion in storage supply has been ideal for Europe, who hopes to ban Russian LNG imports by 2027, especially since the U.S. is expected to fill in. Russia accounts for 16% of Europe's LNG supply—up from 12.75% from the same time in 2023. The current high level of available natural gas storage supports Europe's aspiration to transition away from Russian natural gas.

What if a difficult winter in the U.S. or Europe or severe drought in Latin America occur between 2025 and 2027? The answer is that natural gas prices will increase, and Europe won't be able to ban importing Russian natural gas.

Here's why: sectoral changes in natural gas consumption are tied to the weather, and natural gas-fired power plants provide a significant percentage of U.S. and European electricity generation. Electricity demand from heating and air-conditioning equipment influences the level of natural gas consumption by the electric power sector.

At a time when Asia accounts for 26% of U.S. LNG exports and electricity demand associated with AI and cryptocurrency operations are expected to increase, the U.S. must maintain our competitive landscape for LNG projects to compete with Qatar and emerging LNG providers in Central Asia and Africa.

The U.S. was on course to double its gas liquification capacity by 2027, until the Biden administration's decision to pause decisions on applications to export LNG. If not resolved soon, capacity additions that were expected after 2025 may be affected.

As geopolitical tensions continue to fragment global commodity markets and weather events add uncertainty, the U.S. LNG industry remains a dependable supplier of natural gas to the global economy.

Strive Founder Vivek Ramaswamy Speaks At Hedgeye Investing Summit

On Wednesday, Strive Co-Founder Vivek Ramaswamy spoke with Keith McCullough at the Hedgeye Investing Summit. He shared stories of his upbringing, his business successes, and why he founded Strive:

> I founded Strive to compete against those incumbent financial institutions that take those orthodoxies from the role of the Fed to the ESG movement as a fixed dogma and to question those dogmas and to say that you know what maybe we should just return to the base principles that American capitalism was founded on in the first place: that every company and every financial institution should pursue its own unique mission, maximizing financial value without apologizing for it.

Watch the full interview here.

Voting Spotlight: Dow, Inc.

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 shareholder proposal at Dow seeking a report on reducing single-use plastics. The proposal claimed that single-use plastics harm the environment, and that Dow, as one of the largest producers of plastic resins, could be negatively impacted if such products are banned.

The company opposed the proposal, explaining:

- contrary to the proponent's assertion, "overall growth for polyethylene demand remains robust, with global polyethylene demand expected to grow at approximately 1.2 – 1.4x of gross domestic product," and
- further, "even if all the plastics bans under consideration were hypothetically to come into effect, the estimated result would be less than 2% of Dow's total sales based on 2023 revenue, and therefore, not material to the financial performance of the Company."

Strive agreed that the report was unlikely to serve shareholders' best financial interests, and so voted against the proposal.

The Best of the Rest

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

- West Virginia bans four banks over ESG policies; Citi and HSBC among financial institutions added to state blacklist.
- Morningstar highlights four key climate proposals shareholders are voting on this year.
- Chinese stock drops fueled by opacity as investors don't trust numbers from Chinese government or companies; Fitch downgrades China outlook and Beijing tries to do damage control.
- Marketers strategize over ESG rebranding; some companies want to keep efforts under the radar while others want to change the language used.
- Europeans stand firmly in favor of ESG despite U.S. backlash; "We've seen faster regulations lead to faster conformity, which has shielded European financial institutions from ESG headwinds," one sustainability analyst said.

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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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