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The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

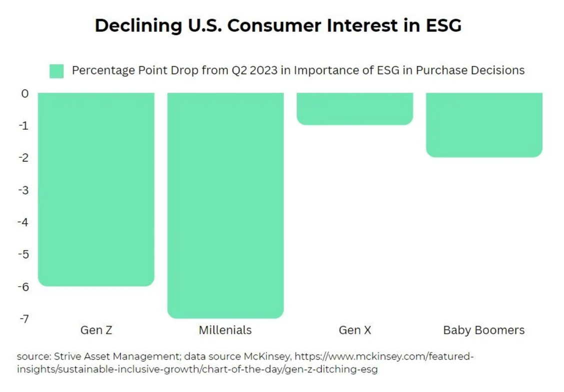
July 23, 2024

This Week: Gen Z ditching ESG; Judge hears arguments on DOL ESG rule; The Silicon Surge talks about Intel's chipmaking comeback.

Gen Z Is Ditching ESG (So Is Everyone Else)

A new study from McKinsey reports that Gen Z may be ditching ESG when making purchasing decisions—along with pretty much everyone else.

The Study: McKinsey surveyed over 15,000 people worldwide, asking how important ESG was to their purchasing decisions. Six percent fewer Gen Z consumers in the U.S. said they cared about ESG in the first quarter of 2024, compared to last year. Everyone else in the U.S. also reported declining interest.



A Worldwide Trend: The U.S. wasn't the only country to see this phenomenon. In five out of six regions studied, Gen Z had lost interest in ESG.

Per the Authors' Report:

> Younger consumers aren't just deprioritizing sustainability in their purchase decisions; they've also become less willing to pay a premium for sustainable products. In Europe and the United States, the percentage of young consumers willing to pay a premium for products with sustainability claims declined by up to four percentage points across product categories. Among these consumers, only a very small percentage were willing to pay a premium for personal care and apparel products with sustainability claims.

Overstating Impact: Even this self-reported interest in ESG purchases may be overstating things. That's because, per another new study in the Chicago Booth Review, the vast majority of consumers don't change their actual spending habits, even when they tell researchers they care about ESG. Researchers asked participants how much they cared about ESG when making purchasing decisions, and about a third said they felt strongly or very strongly about it. But their pocketbooks told a different story: Consumers who learned about a company's social efforts increased spending by only about 0.3%, and only for a week or two. After that, ESG didn't matter at all.

Why It Matters: ESG proponents frequently argue that companies should adopt ESG practices because customer spending will follow. But while a lot of people claim to care about corporate sustainability, few studies measure real-life spending habits. And when real money is on the line, customers seem much more likely to care about value than values.

Judges Hear Argument on DOL ESG Rule

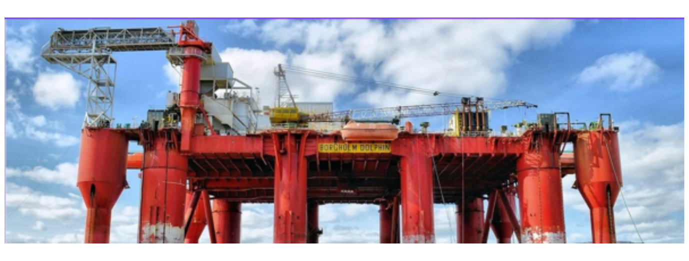
Last week, the Fifth Circuit Court of Appeals heard oral argument in a lawsuit brought by twenty-six state attorneys general challenging the Department of Labor (DOL) rule allowing ESG investing in retirement accounts, Reuters reports.

At Issue: "The '22 rule was issued to make it easier for fiduciaries to funnel American workers' retirement savings toward the ESG funds that many of those money managers prefer," Jonathan Berry, the plaintiffs' attorney, explained. The DOL disagreed, arguing that the rule doesn't allow fiduciaries to sacrifice financial returns to pursue ESG goals.

A One-in-a-Trillion Rule: Judge Andrew Oldham seemed skeptical of the DOL's argument that the rule would only allow ESG investing in "one in a trillion" instances to break ties between financially equal investments. "There seems to be a massive disconnect between the department's view that this is a nothing burger and (the argument that) this is a monumental deal," the Judge said.

Less Agency Power: The judges asked both sides about the impact of the Supreme Court's recent ruling limiting agency power, suggesting the DOL may not have had the authority to allow retirement fund managers to pursue ESG goals without congressional consent. Given these questions, the appellate court may punt the case for now and allow the district court to weigh in again. They say that death and taxes are the only two certainties in life, but never-ending litigation is probably a close third.

BP Ups Oil & Gas Forecasts As Green Transition Slows



BP has increased its forecasts for fossil fuel demand as the transition to wind and solar has slowed, the Financial Times reported last week.

BP's Estimates: BP upped its estimates for oil demand in 2035 by between 5% and 10% under various scenarios, compared to the estimates it gave last year. BP wrote that it expects oil to continue to "play a significant role in the global energy system for the next 10-15 years," as it also upped its demand estimates 3% for natural gas.

The Cause: BP attributed the cause to rising standards of living in the developing world, which will increase energy demand.

BP Recalibrating Strategy: BP's estimates come as the oil giant has faced increased criticism for its net zero strategy. In January, Bluebell Capital Partners called on BP to abandon its "irrational" net zero strategy, claiming it has already cost shareholders over $50 billion.

Missouri Sues IBM Over DEI Policies

Missouri's Attorney General has sued IBM for human rights violations over the company's DEI policies, the Harvard Law Forum on Corporate Governance reported last week.

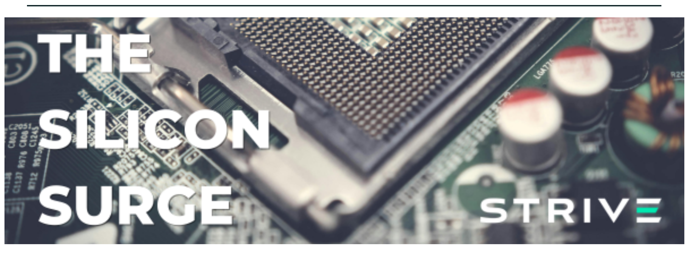
The Suit: The complaint says it all:

1. IBM gives its executives two choices: discriminate or lose your job.
2. IBM uses its "diversity modifier" to shackle executive compensation to meeting race-, color-, national origin-, sex-, and ancestry-based employment quotas.
3. If an IBM executive meets the quotas, IBM gives them the carrot: a plus on their bonus.
4. But if he or she fails to meet it, IBM swings the stick: they lose part of their bonus and, eventually, their job.

The Rationale: "IBM has adopted an unlawful policy that blatantly favors applicants of a certain skin color over others, and that managers within the company who refuse to comply with said policy face adverse action, including and up to, termination. Discrimination in the workplace violates both state and federal law, which is why I am filing this lawsuit," Attorney General Andrew Bailey explained.

A Failure to Heed Missouri's Warning: The lawsuit marks the first lawsuit following the July 2023 letter that Missouri, along with a dozen other states, sent to Fortune 100 companies threatening legal action if they did not comply with the Supreme Court's ruling in *Students For Fair Admissions v. Harvard*, which made clear that affirmative action violates the Civil Rights Act.

A Stark Reminder: Per the Forum, "the Missouri lawsuit is a stark reminder that companies with a commitment to diversity remain under scrutiny and need to make sure those initiatives are legally compliant."



Intel Begins its Comeback Against TSMC

Intel believes it's finally ready to compete with TSMC to produce the world's most advanced semiconductors.

Intel recently announced it has started volume production of its 3 nanometer-class node, usable in state-of-the-art smartphones and servers. These smaller nodes allow chipmakers to pack more transistors into chips, making them more powerful and power-efficient.

Meanwhile, TSMC is raising prices for its own 3nm technology by over 5% due to overwhelming AI demand. It has fully booked orders through 2026. Tech giants like Nvidia, Apple, and Qualcomm agreed to pay more in exchange for a promise of steady supply of these premium products. Higher prices from TSMC raise Intel's own pricing power, which has boosted its stock.

Chip designers want a strong competitor to TSMC. Ongoing geopolitical risks and limited numbers of factories are causing massive bottlenecks in semiconductor production, and the U.S. has had enough.

For decades, Intel only made chips for itself and used its manufacturing lead to charge a premium for its products, leaving U.S. chip companies outsourcing their manufacturing overseas to companies like TSMC, who took advantage of the EUV era. This made Intel fall behind during the semiconductor boom since it failed to adopt EUV technology to produce smaller, more advanced process nodes.

Now Intel is bouncing back.

To reverse its previous mistakes, Intel claims it can reduce its number of outsourced wafers by over 30% by taking full advantage of its EUV machinery. Intel adopted ASML's new High NA EUV machinery earlier this year—which TSMC has yet to buy—which will assist with even smaller process nodes in the future.

While Intel is trying to seize the moment, it'll be a battle. The design and manufacturing costs for chips using 3nm nodes are much higher than those of previous nodes, with a whopping $650M compared to $436M for 5nm-class nodes. There have also been delays in its new manufacturing plants across the U.S., pushing some project deadlines to 2027.

But Intel will likely take some market share from TSMC. The question is just how much and how fast. Its stock has been left for dead during the last few years' semiconductor rally, but with 3nm production ramping, we expect any supply deals with big customers to be tailwinds for Intel and headwinds for TSMC.

Strive CEO Matt Cole Speaks at Freedom Fest

Last week, Strive CEO Matt Cole led a breakout discussion called "Capitalism Unleashed" at Freedom Fest in Las Vegas. The session, co-led by Wrong Speech Publishing founder Adam Coleman, focused on dismantling ESG and DEI constraints and what these efforts mean for corporate America.

The Best of the Rest

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

- Study shows ESG is unconnected to financial performance in Canada too; "our study finds no statistically significant evidence that changes in ESG ratings, whether upgrades or downgrades, affect stock returns."
- HR trade organization drops "E" from DEI; ESG proponents lambast the move, accusing trade group of acquiescing to "extremist hate groups."
- Climate Action 100+ sees two more departures; both asset managers pledge to continue to engage with companies on climate change.
- Senators grill SEC commissioner over climate rules: "In a testy exchange, Sen. John Kennedy, R-La., asked [Commissioner] Crenshaw if the point of the rule was to harass businesses or to virtue signal."
- Europe eyeing cuts to China investments over support for Russia.
- No action letters in 2024; companies are still asking the SEC to let them to keep shareholder resolutions off the ballot, and the SEC is increasingly agreeing, as ESG resolutions become more and more prescriptive.
- Johnson & Johnson releases DEI report touting $80 million spend on Race to Health Equity initiative despite poor stock performance.

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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.