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STRIVE

# The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

**September 10, 2024**

**This Week:** Coors drops DEI; Investment banks cut China forecasts; The Silicon Surge assesses Nvidia's expansion into new lines of business.

## Coors Drops DEI


Coors is the latest company to drop its DEI policies, CNBC reported last week.

**Catch Up Quick:** Many companies from Tractor Supply to Lowe's and Ford have been dropping DEI policies as both pro-shareholder commentators like Strive and conservative ones like Robby Starbuck have been speaking out against such practices.

**Changes Underway:** A comparison of Coors's latest policy to its prior commitments shows significant changes are underway:

| Old Policy | New Policy |
|---|---|
| 25% increase people of color representation in U.S. from 2020 baseline | N/A |
| 25% increase in female representation | N/A |
| $1 billion set aside for diverse suppliers | N/A |
| Trainings on DEI | Trainings on key business objectives |
| 100 score from Human Rights Campaign | No longer participate |
| 10% of bonuses tied to DEI & ESG | 100% bonuses tied to financial metrics |

Source: Strive Asset Management; Data Sources: https://www.wsj.com/business/molson-coors-rolls-back-dei-initiatives-2a70339d; www.molsoncoors.com/sustainability/collectively-crafted/our-people (current and Wayback Machine capture dated Aug. 19, 2024).

**Striving for Better:** Strive has been pushing portfolio companies to drop ESG and DEI policies, including by voting against pay plans that include them. Coors is no exception. Last year, Coors dinged its executives more than 5% of their bonuses for not meeting ESG goals, including race and gender-based hiring targets, despite the fact that the company exceeded its financial goals. Asset managers including Vanguard, BlackRock, State Street, Capital Group, and Morgan Stanley all supported the move, but Strive didn't. We believe this kind of compensation incentivizes exactly the wrong behavior and voted against it last spring.

**Brewing Success:** While the new policy may not be a silver bullet, we're encouraged by the change.

## Investment Banks Cut China Forecasts

Investment banks have cut China's growth forecasts amid waning investor confidence, the Financial Times reported last week.

**An Unachievable Target:** Beijing set a target of 5% growth this year. But that target seems increasingly out of reach, per revised estimates released by investment banks last week. Bank of America cut its estimate to 4.8% while TD Securities came in at 4.7%—both in-line with a Bloomberg survey of economists, who also believed that China will miss its growth target by .2 percentage points this year. Of the major financial institutions to release numbers, JP Morgan appears the most pessimistic, slashing its estimate to 4.6%. The bank also downgraded Chinese equities from "overweight" to "neutral" in a note last Wednesday, encouraging investors to consider investing in other emerging markets including India, Mexico, and Saudi Arabia instead.

**What They're Saying:** Analysts have offered various explanations for why they believe China is unlikely to reach 5% growth this year:

- "[A] deeper-than-expected property downturn which we believe has yet to bottom" and its effect on "household consumption."—UBS
- "[A d]ouble whammy of weather shocks and weak demand."—Citi
- "[E]scalating trade tensions between China and other economies."—Standard Chartered
- "The impact of a potential 'Tariff War 2.0' (with tariffs increasing from 20% to 60%) could be more significant than the first tariff war."—JP Morgan

**U.S. Election Uncertainty?:** While some analysts mentioned the potential for heightened volatility surrounding the upcoming U.S. election, the result of the election may not have a substantial impact on Chinese stocks. Notably, both Kamala Harris and Donald Trump have pledged to take on China, leading many Chinese commentators to believe the U.S. election is a choice between "two bowls of poison."

## ESG Movement Flip Flops on Defense Stocks

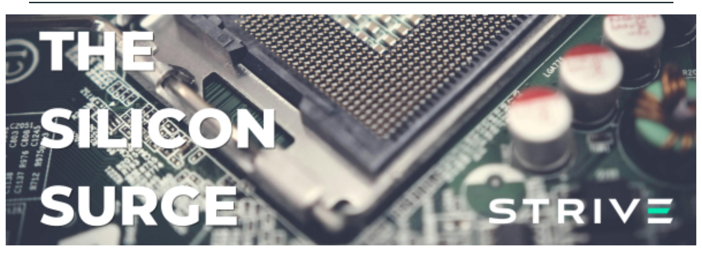
ESG funds have undergone a "profound" and "dramatic" shift from excluding defense companies to embracing them, CNBC reports.

**The Context:** ESG funds purport to allow investors to earn financial returns while also making the world a better place. Historically, that meant excluding weapons manufacturers. Following Russia's invasion of Ukraine, however, defense stocks have soared. Now, ESG fund managers are allowing them in, arguing that these companies help countries defend themselves, which improves society.

**The Numbers:** The Financial Times reports that in the past two years, the number of European ESG funds that invest at least 5% of their assets in weapons and defense companies has tripled from 22% to 66%. In the U.S., ESG funds' exposure to the sector has increased 54%—from $779 million to $1.2 billion—over the same timeframe.

**Defining the Undefinable:** The undefined nature of "ESG" has always been a problem, and the ESG industry's flip-flopping on defense stock only underscores it. As NYU Professor Aswath Damodaran has written, "Goodness is in the eyes of the beholder, and what you perceive to be a grievous corporate sin may not even register on my list." For some ESG investors, investing in a company that supplies arms to Israel would be a no-go; for others, it would be a must. That means the inclusion or exclusion of defense stocks is, as Stephen Soukup at Consumers Research explains, "animated by purely ideological considerations."

**What It Means for Investors:** Investors, of course, are free to invest their money however they see fit—via pacifist funds, or defense stock funds, or ideologically-neutral funds designed to maximize returns, or anything else. But to allow investors to do so, asset managers have an obligation to be honest—and specific. In our view, generic ESG funds miss the mark, both because what's morally "good" and "bad" is subjective and because, as we've seen, it can change from one day to the next.




## Nvidia is expanding its business beyond chips

Nvidia claims it's becoming an AI factory, or in other words, a one-stop shop for all data center tools, ranging from networking technology to software design services. Its design transition aligns with the company's broader goal of dominating the AI market, which runs through data centers.

The assertion came in Nvidia's Q2 earnings call, where the firm raked in nearly $26.3 billion in data center sales, making up about 87% of its total revenue. Thanks to Wall Street's AI craze, we've seen Nvidia's share price rise by 154% over the past year, and it could rise even higher.

Despite its positive earnings and business expansion, its stock plummeted due to a three-month delay in the production of its Blackwell AI chips. Its Blackwell GPU is 4x faster than its current Hopper processor, and customers are eager to use it. The setback may prevent its latest chips from operating at data centers until early 2025.

Nvidia has all the specific skills to be a successful data center designer. It sells products including central processors and networking chips for various other data-center equipment that will work seamlessly together. It also offers software and hardware setups catering to specific industries' needs.

Nvidia's expansion into data center design and its robust GPU offerings are starting a trend in Big Tech to move toward vertically integrated solutions rather than going through multiple vendors like Meta or Microsoft. This more streamlined process should benefit the future of AI.

Competition is on the rise. AMD announced it's acquiring ZT Systems, a design firm that provides equipment for data centers, to compete with NVIDIA. However, AMD has an uphill battle to capture Nvidia's 80% market share.

This move positions Nvidia as both a chip and data center design and infrastructure firm. While some argue that Nvidia shouldn't have any more power than it already does in the AI market, it continues to drive the field forward.

## The Best of the Rest

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

- Institutional investor group wants microbial resistance treated like climate change; group representing $13 trillion in assets argues anti-microbial resistance is "a threat to the health of our people and planet."
- Law firm White & Case details legal risks surrounding DEI following Supreme Court's decision in *Students for Fair Admission v. Harvard*; notes that "[i]n response to the judgment, Strive Asset Management demanded that one of its portfolio companies rescind diversity targets for employees and suppliers."
- Brands tend to have customer bases that lean Republican or Democrat; new analysis shows different brands have audiences with different political leanings, though most only mildly to moderately so.
- Securities and Exchange Commission files brief defending climate rules; argues that it has authority to force companies to disclose any and all information that investors might consider material, even at substantial expense.
- ESG still ubiquitous in executive pay with 92% of European blue chip companies tying pay to ESG measures (up from 89% last year) and 71.4% of S&P500 companies doing the same (up from 69% last year).

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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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