STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

June 4, 2024

This Week: Exxon triumphs over climate activists; Harvard commits to political neutrality; The Silicon Surge discusses ASML's monopoly power over TSMC.

Exxon Triumphs Over Climate Activists

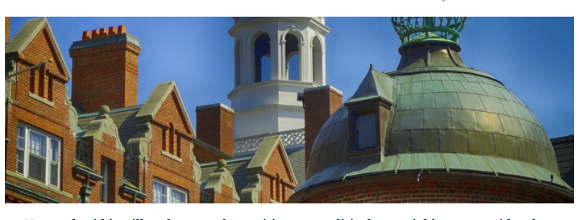
Exxon's directors easily won reelection at last week's annual meeting, despite a campaign by progressive activists to oust CEO Darren Wood and independent director Joseph Hooley, the Wall Street Journal reports.

Catch Me Up: As Strive CEO Matt Cole wrote in an X post we previewed last week, Exxon's annual meeting was a showdown over ESG.

- Earlier this year, progressive activists submitted a shareholder proposal to get Exxon to wind its oil and gas business down. Exxon sued to keep it off the ballot.
- The activists dropped the proposal, but blue-state pension funds including CalPERS and New York Common Retirement Fund took up the fight by trying to oust Exxon's CEO from the board.

The Results Are In: The campaign failed. Exxon announced that all of its directors received between 87% and 96% of shareholder votes, in line with past years.

Harvard Commits to Political Neutrality



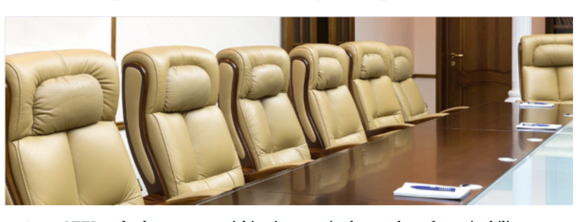
Harvard said it will no longer take positions on political or social issues outside of the University's core function, the New York Times reported last week.

What's Going On: Harvard took heat for its garbled messaging in response to the Hamas attacks on Israel on October 7. Going forward, Harvard plans to say less. "Harvard isn't a government," said Harvard Law School Professor Noah Feldman and one of the architects of the new policy. "It shouldn't have a foreign policy or a domestic policy."

A Neutral Policy: Feldman has taken pains to argue that Harvard hasn't adopted true "political neutrality" because its policy leaves open the ability to comment on matters related to the University's core function, like opposing legislation that would tax university endowments. But for the most part, the new policy reads as a commitment to neutrality.

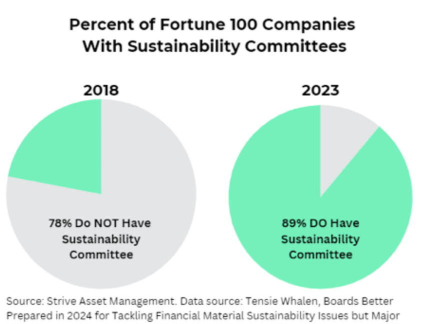
A Lesson for Corporate America: If even Harvard has realized the folly of weighing in on politicized issues of the day, corporate America should too. And Harvard's proposed solution is a good one: commit to saying less, unless the issue is essential to your core function as a business. At long last, Harvard has gone back to teaching a valuable lesson.

ESG Proponents Infiltrating Company Boards



A new NYU study shows an astonishing increase in the number of sustainability committees and ESG credentialed board members over the past five years, Fortune reports.

ESG Committees: In 2018, just 22% of Fortune 100 companies had designated sustainability committees; today 89% do:



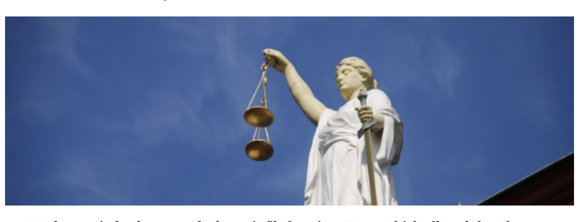
Source: Strive Asset Management. Data source: Tensie Whalen, Boards Better Prepared in 2024 for Tackling Financial Material Sustainability Issues but Major Weaknesses Persist, NYU Stern School of Business Center for Sustainable Business (Feb. 2024).

ESG Board Credentials: ESG credentials are also on the rise, with 43% of all board members holding at least one ESG credential, compared to 21% five years ago. "E" and "G" credentials are most common, although DEI credentials are also on the rise.

Source: Strive Asset Management. Data source: Tensie Whalen, Boards Better Prepared in 2024 for Tackling Financial Material Sustainability Issues but Major Weaknesses Persist, NYU Stern School of Business Center for Sustainable Business (Feb. 2024).

Advocacy in Action: While we have no reason to doubt the numbers, we'd note that NYU's Center for Sustainability Research is hardly an unbiased organization. In addition to providing the statistics above, the full report calls out companies that have demonstrated "poor performance" and compares them to companies that have "good practices," as though loading up a board of directors with ESG advocates is somehow helpful to the companies they purportedly serve.

Delaware Rejects Stakeholderism



A Delaware judge has tossed a lawsuit filed against Meta, which alleged that the company put its own profits over other stakeholders, including the economy as a whole, Bloomberg Law reports.

A Lawsuit: The case was brought by nonprofit group Shareholder Commons, which alleged that Meta breached its fiduciary obligations by doing things like destroying teens' mental health and spreading vaccine misinformation to maximize the company's profits, at the expense of its shareholders' diversified portfolios.

Or Performance Art?: Per Bloomberg, "the lawsuit is not so much a real lawsuit as it is a piece of performance art, or a philosophy paper. It doesn't really provide a guide for corporate action; it is just an abstract inquiry into what the corporation is for."

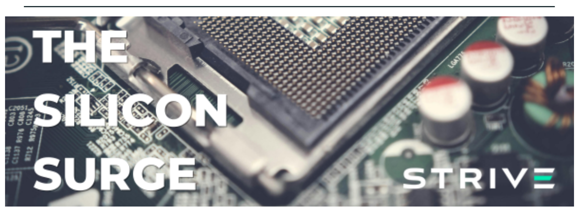
Fish Don't Talk About Water: We'll let the court speak for itself:

- "[D]irectors owe fiduciary duties to the shareholders, and only to the shareholders. There is no room for talk of 'stakeholders' or 'other constituencies.' All other parties—creditors, employees, communities—are, simply put, third parties. They are owed no fiduciary duties and have no legitimate role in corporate governance."
- "The standard Delaware formulation thus contemplates a single-firm model (or firm-specific model) in which directors ... owe duties to the stockholders as investors in that corporation."
- "The point is so basic that no Delaware decisions have felt the need to say it. Fish don't talk about water."

Law Professors Agree:

- "Even people who support stakeholder governance in the abstract agree that the law on this wasn't that ambiguous. At least managing the share price is something I can hold the board to, rather than giving them seven different masters, which lets them use these multiple objectives as a cover for doing whatever they want."—Boston University Prof. Madison Condon.
- "I tend to agree with stakeholder theory, but think about Facebook and Cambridge Analytica. What if they had said, 'We think Trump is better for the economy than Hillary Clinton?' I don't think we want directors making those kinds of business judgments."—Southern Methodist University Prof. Carliss Chatman.

Plaintiff Isn't Giving Up: The plaintiff told Bloomberg the ruling wasn't really a setback, because it was a long-shot case intended to soften the ground for future advocacy.



ASML Flexes Its Monopoly Power Over TSMC

Last week, the news broke that TSMC's CEO had skipped his own company's conference to make a secretive visit to ASML's headquarters in the Netherlands instead.

TSMC was the first company to adopt ASML's extreme ultraviolet wavelength (EUV) advanced chipmaking technology about fifteen years ago. Now, it's the world's most successful chip producer, leapfrogging its competition because Intel had thought it could do without ASML's expensive machines.

EUV machinery manufactures the world's most advanced chips, ranging from AI to military applications. It uses photolithography tools to create integrated circuits using beams of light. ASML's first generation of EUV systems supports up to 13 nanometers, enough to make most smartphone and AI-related chips.

What explains TSMC's CEO's rush to the Netherlands? He likely conceded that TSMC was on track to repeat Intel's mistake.

Last year, ASML released a cutting-edge "high-NA" EUV machine, setting a new chipmaking density record of 8 nanometers. TSMC has been claiming it doesn't need this new technology yet due to the success of ASML's original EUV machines, which can support its chip production plans until 2026. TSMC has been balking at the new machines' $400 million price tag. ASML's Q1 earnings took a hit, with net sales plummeting 21.6% year-on-year and its order book light, thanks to its biggest customer's reluctance to buy its new product.

Intel has no such misgivings. As the first company to purchase ASML's High-NA technology, Intel is betting the new machinery will help it reclaim the chipmaking crown. With the backing of governments around the world, Intel is making substantial investments in chip production.

TSMC may be realizing it risks falling into the same stagnation Intel did if it doesn't adopt the latest chipmaking technology—thus its CEO's secret visit to ASML's HQ. Upon the news, ASML stock surged and TSM stock fell, a pattern that will likely continue as ASML gains the upper hand in their negotiations.

TSMC beginning to cave to ASML demonstrates the power of technological monopolies in the semiconductor value chain. No company is close to competing with ASML in state-of-the-art chipmaking equipment. As the world's appetite for AI increases, ASML will continue to control the gateway to it—and charge a hefty toll.

Last week, Politico highlighted its interview with Strive CEO Matt Cole over CalPERS's recent attempt to oust Exxon's board over its climate change policies. "[I]t's concerning that you have a bloc of voters that effectively want to put corporations in wind-down mode," Cole told the outlet. If CalPERS really believes that Exxon's best path is to shut down, it should just divest. "We [at Strive] don't push any company to wind down their main business line. [But i]f that's where you're going as a company, as an investor, and that's where CalPERS is going, it would be better to divest than take that approach."

Read the full interview

Voting Spotlight: Chevron

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

Last week, Strive voted against proposal asking Chevron for a human rights report. The proponent claims the report is needed because Chevron has engaged in "severe human rights abuses, including torture, forced labor/slavery, rape, murder, and even genocide" and that its "emissions contribute to the climate crisis, which disparately impacts people of color and furthers systemic racism."

Chevron's board opposed the proposal, stating that it was "riddled with falsehoods" and that a report was unwarranted.

Strive agreed the proposal was unlikely to generate financial value for shareholders, and so voted against it.

The Best of the Rest

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

- House Republicans probe unions on politicized proxy voting; seek information from three major unions on attempts to influence shareholder meetings and costs to union members.
- State pension funds divesting from China; Florida passed law last month, Illinois, Kansas, Missouri and New Jersey all have similar legislation in the works.
- Study shows companies buying carbon credits that are "likely junk"; "Delta, Gucci, Volkswagen, ExxonMobil, Disney, easyJet and Nestlé are among the major corporations to have purchased millions of carbon credits from climate friendly projects that are ... worthless when it comes to offsetting their greenhouse gas emissions."
- Cost of ESG increasingly challenging for Asian fund managers; everyone claims that low carbon and green energy are important considerations, but "the truth is it is adding cost to me," one fund manager told the Financial Times.

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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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