STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

April 29, 2025

This Week: Executive order opens the door to meritocracy; Chinese stocks could be kicked off U.S. exchanges; The Bitcoin Brief analyzes new Bitcoin treasury company Twenty One.

Executive Order Opens the Door to Meritocracy

Last Wednesday, President Trump signed an executive order eliminating "disparate impact" theory from civil rights enforcement actions, thereby paving the way for equal opportunity and meritocracy to prevail.

What's Disparate Impact Theory? Disparate impact theory holds that even colorblind, race-neutral actions that disproportionately affect underrepresented minorities are illegal under our civil rights laws.

Real World Impacts: As the City Journal explains, disparate impact theory has had wide-ranging effects:

> It has been used to invalidate literacy and numeracy standards for police officers and firemen, cognitive skills and basic knowledge tests for teachers, the use of SATs in college admissions, the use of grades for medical licensing exams, credit-based mortgage lending, the ability to discipline insubordinate students, and criminal background checks for employees and renters. It has been used to eliminate prosecution for a large range of crimes, including shoplifting, turnstile jumping, and resisting arrest.

Why It Matters: As the Order states:

> [D]isparate-impact liability has hindered businesses from making hiring and other employment decisions based on merit and skill, their needs, or the needs of their customers because of the specter that such a process might lead to disparate outcomes, and thus disparate-impact lawsuits... Disparate-impact liability imperils the effectiveness of civil rights laws by mandating, rather than proscribing, discrimination. As the Supreme Court put it, "[t]he way to stop discrimination on the basis of race is to stop discriminating on the basis of race."

Paving the Way to Meritocracy: In an effort to restore equality of opportunity, rather than outcome, the Order:

- rescinds any prior presidential order imposing disparate impact theory,
- instructs federal agencies to revise rules and regulations to eliminate any potential liability under a disparate impact theory, and
- review state laws to determine whether state-level disparate impact theories violate federal civil rights laws

Good for Business: Lowering the risk of litigation is almost always good news for corporations, but this executive order does something more: it promises to allow companies to select the best applicants, vendors and strategies to grow their business without fearing that such merit-based approaches could land them in the legal hothouse. That's good news for workers, companies and shareholders alike.

Chinese Stocks Could Be Kicked Off U.S. Exchanges

President Trump is considering delisting Chinese companies from U.S. stock exchanges as part of his broader trade war efforts, Politico reports.

Fill Me In: A couple weeks ago, we talked about how China was broadening its trade war arsenal beyond tariffs, looking for ways to hit U.S. companies doing business in the region. Now, President Trump appears to be returning the favor.

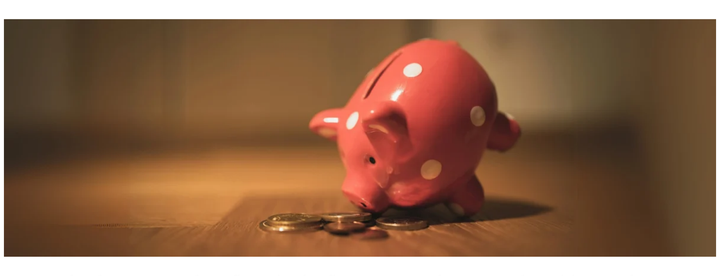
"Everything's On The Table": As Politico reports, Washington is eyeing Wall Street, mulling the removal of Chinese listed companies from U.S. exchanges, thereby depriving the 300 U.S.-listed companies easy access to the U.S. capital markets. "Everything's on the table," Treasury Secretary Scott Bessent indicated.

VIEs in the Crosshairs: The administration could also ban variable interest entities (VIEs), which are an indirect way for U.S. investors to invest in Chinese companies. Under the VIE structure, a Chinese company sets up a shell company in the Cayman Islands and allows the shell company to sell shares to U.S. investors. The structure has long been controversial, both because U.S. shareholders do not actually own any stake in the Chinese operating company and because the entire purpose of a VIE is to evade the CCP's restrictions on foreign ownership of Chinese companies—a move the CCP considers illegal.

Spiraling Prices: If U.S. investors are restricted from Chinese stocks, Chinese companies could face around $800 billion in liquidation selling, per estimates from Goldman Sachs.

Dig Deep: To learn more about why Strive believes China risk is investment risk, read our white paper here.

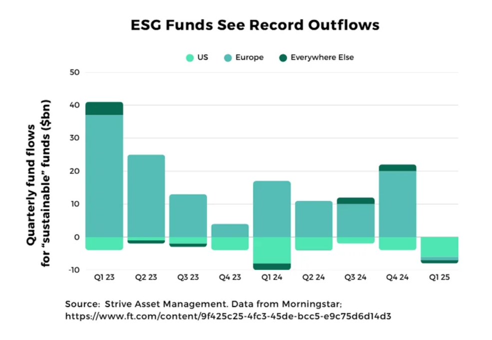
ESG Funds Hit Record Outflows



ESG funds saw record outflows in the first quarter of 2025, as the critiques of ESG investing have finally reached European shores, the Financial Times reported last week.

The Stats:

- U.S. ESG funds have seen outflows for the past ten consecutive quarters
- For the first time since Morningstar began tracking data in 2018, EU-based ESG funds saw quarterly outflows as well, with $1.2 billion in capital exiting sustainable funds in Q1 2025.



The Reasons:

- Conventional EU funds saw inflows over the same timeframe, so the dip is not part of a larger market trend
- Instead, U.S. skepticism of ESG investing strategies appears to be influencing EU investors
- Analysts also suspect the EU's newfound embrace of defense stocks is playing a role, as ESG funds traditionally eschew weapons makers, while the EU is investing heavily in defense.
- Per the Financial Times, a Morningstar representative said she believed the EU outflows were the result of "pushback against ESG and diversity, equity and inclusion policies driven by the Trump administration."

Financial Underperformance: While Morningstar suspects that the EU's green investors are pulling money because of the new U.S. administration, we think that's unlikely. Logically, it seems implausible that the Dutch and Swedish sustainability investors are taking their cues from President Trump. More importantly, there's a much more straightforward reason to abandon these funds: ESG funds tend to underperform their traditional counterparts over time, particularly when you factor in their higher fees. No investor enjoys losing money; EU sustainability investors appear to be no exception.

New Bitcoin treasury heavyweight Twenty One emerges

We've covered how more and more small and mid-sized companies in various industries are adding Bitcoin to their treasuries. Last week, a new large pure-play Bitcoin treasury company announced itself. Twenty One Capital—named after the maximum 21 million Bitcoin that will ever exist—intends to launch with over 42,000 Bitcoin already on its balance sheet, which would give it the world's third largest corporate Bitcoin treasury. The move both adds another deep-pocketed buyer of Bitcoin and validates the treasury strategy, paving the way for more institutional adoption.

One thing that makes Twenty One notable is its backers. Tether, the issuer of the world's largest stablecoin, will contribute at least $1.5 billion worth of Bitcoin to a special purpose acquisition vehicle launched by Cantor Fitzgerald (an investor in Strive). The remainder will come from Tether's sister company, crypto exchange Bitfinex, and Japanese investment giant Softbank. Twenty One's CEO will be Jack Mallers, co-founder and CEO of Bitcoin transaction app Strike.

This marks Softbank's first notable foray into Bitcoin. Softbank is known for making big bets like its $100 billion Vision Fund with Saudi Arabia and its recent plan to invest $100 billion in American AI infrastructure. Institutional investors don't get much larger than Softbank. It makes large investments in world-changing technologies. For Softbank to back a pure Bitcoin treasury company in the vein of Strategy (MSTR) means that Bitcoin is graduating to a new tier of institutional acceptance.

Analysts are already taking note. "The proposed launch of Twenty One reflects the most-meaningful validation of Strategy's bitcoin treasury operations to date and could mark a turning point in institutional investor sentiment around MSTR shares," wrote analysts at TD Cowen. By validating a pure Bitcoin treasury strategy on a large scale, the new venture also makes it easier for companies of all stripes to add Bitcoin exposure to their treasuries. And the presence of a new large, eager buyer of Bitcoin may be a rising tide that lifts all boats in the Bitcoin space.

Strive CEO Matt Cole to Speak at The Bitcoin Conference

"In an overlevered world of abundance and mass disruption, you want to own what is truly scarce."

Join Strive CEO Matt Cole at The Bitcoin Conference in Las Vegas, May 27-29, to learn more about his vision for Bitcoin and the role he believes it can play in individual portfolios, corporate treasuries, and the global financial ecosystem at large.

Learn More

Voting Spotlight: Johnson & Johnson

Johnson&Johnson

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 proposal asking Johnson & Johnson to consider voluntarily selling its medications at below market rates because, according to the proponent, international human rights accords "recognize the right of everyone to the enjoyment of the highest attainable standard of physical and mental health." The proponent went on to criticize Johnson & Johnson for selling its medications at prices that are "unaffordable" for some patients and for belonging to a trade group that lobbied against Obamacare and a California bill to cap drug prices.

Johnson & Johnson responded by explaining that "innovation ... is ultimately the engine of access" and that it invests billions of dollars in research to address unmet health needs. It further explained that it is transparent about its pricing strategies and efforts to make its lifechanging medications accessible, meaning additional reporting would not hep shareholders.

Because the proposal was focused on a social goal, and because it appears unlikely that voluntarily reducing the price of its core products is likely to help the company's bottom line, we voted against the proposal.

The Best of The Rest

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

- U.S. tries to crush China's AI ambitions with new crackdown on chips; new export restrictions on advanced semiconductor chips may have implications both for China's technological advancement and the trade war.
- Texas seeks to subpoena BlackRock and State Street over ESG practices after both financial managers refused to voluntarily provide testimony on the advice of their legal counsel.
- Law professors ask Delaware Supreme Court to support Tesla shareholders in dispute over Elon Musk's pay package; ask court to reverse the lower court's decision because shareholders ratified Musk's pay package and "the massive disclosure provided to shareholders prior to the second vote likely represented the most complete and through disclosure in the history of corporate law."
- Renewable energy producers pause projects amid trade wars and policy uncertainty.
- Fifteen state attorneys general ask the Business Roundtable to abandon ESG; take issue with the organization's 2019 attempt to redefine the purpose of a corporation to serve all "stakeholders" rather than shareholders alone.
- National Association of Manufacturers takes on proxy advisors in new legal brief; argues that the Securities and Exchange Commission is "well within its statutory authority over the proxy process to regulate the entities that exert perhaps the greatest influence on that process."

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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.