STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Lockheed Martin faces whistleblower allegations over DEI; New study finds shareholder primacy is king; The Bitcoin Brief examines pension funds' adoption of Bitcoin.

Lockheed Bonus Debacle Show Dangers of DEI

A whistleblower has come forward to accuse defense giant Lockheed Martin of awarding year-end bonuses based on race, requiring managers swap out high-performing white employees for lower-performing minorities, the City Journal reports.

The Context:

- During the 2020 peak of the ESG movement, Lockheed Martin adopted radical DEI policies, including race-based hiring quotas and requiring leadership to attend trainings aimed at deconstructing their "white male privilege."
- Earlier this year, Lockheed announced it was ending its DEI programs, explaining the company "will continue to help America and its allies achieve peace through strength by recruiting, retaining and promoting the best aerospace and defense talent in the world, with the only criteria being merit and performance."
- Now, a whistleblower has come forward alleging that Lockheed Martin engaged in explicit racial discrimination beyond what was previously known.

The Details: Per the whistleblower's report:

- In December 2022, the whistleblower prepared recommendations for the aeronautics division's year-end bonuses.
- Higher-ups objected to his list because it had too many white employees. As one VP wrote in his email response: "They took a run at getting your few approved and we're told that we need to fit in the box. I asked her to send you the list of diversity names to simplify the task of finding the best in the group."
- HR then instructed the whistleblower to "increase POC 4 and decrease non-minority 4." When he objected, HR director La Wanda Moorer responded forcefully, insisting he do so.
- In the end, the whistleblower followed orders, swapping 18 high-performers for 18 minorities, solely on the basis of race. He then filed an ethics complaint with the company, and, when that was ignored, resigned.

Serious Allegations: The allegations, if true, seem to clearly violate the Civil Rights Act, which prohibits employers from discriminating based on race. And, to its credit, Lockheed Martin appears to be taking the allegations seriously. The company told the outlet:

> Lockheed Martin is a meritocracy... [that is] committed to recognizing performance, rewarding excellence, and upholding the principles of merit and fairness... [The whistleblower] ... raise[s] concerns that we are taking seriously and investigating.

The Bottom Line: Even for companies that have dropped DEI, the Lockheed Martin episode highlights the long-term risks of racial discrimination. It only takes one former employee to come forward, and companies could face millions in legal liabilities, treble damages, and loss of government contracts. Lockheed Martin is a company that is focused on defense, but somehow, it lost sight of defending itself.

New Study Finds Shareholder Primacy Is King

A new study shows why shareholder primacy—the legal doctrine that requires corporations act solely to maximize value for shareholders, rather than outside stakeholders—should reign supreme, the Harvard Law Forum on Corporate Governance reports.

The Study: Researchers from Tulane, Ohio State, and Lancaster University set out to determine whether shareholder primacy or stakeholder capitalism led to better corporate outcomes. To do so, they took advantage of a "natural experiment" that happened when Nevada clarified its law to move away from shareholder primacy and give companies more freedom to pursue the interests of other stakeholders. So what happened? Disaster ensued, on virtually every front.

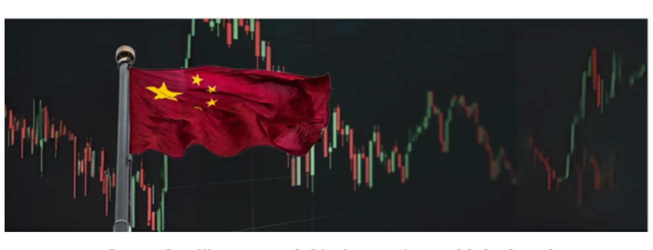
The Unsurprising Findings: Researchers found that after Nevada weakened shareholder protections:

- **Stock prices dropped**, with "significant negative abnormal returns on the effective date of the law." Further, "Nevada-incorporated firms underperform[ed] over the subsequent two years," reflecting an overall "adverse impact on firm value."
- **Governance tanked**, with firms "experienc[ing] an increase in accounting issues after the passage of the law," including greater SEC enforcement scrutiny, more excessive CEO pay, and executive pay that was less sensitive to company performance.
- **Capital was mismanaged**, with "a deterioration in efficiency of capital expenditures and R&D expenses," and
- **Institutional investors fled**, as they lost control over wayward management decisions.

The More Surprising Finding: The more surprising finding, at least to some, was that opening the door to stakeholder capitalism didn't help outside stakeholders either. "Although the law permits consideration of broader stakeholder interests, we find no evidence that firms act accordingly: ESG ratings of Nevada corporations declined after the law's passage," the authors explain. Instead, they posit that this increased discretion was used to channel benefits to insiders, rather than the public good.

The Conclusion: Milton Friedman was right all along. Though perhaps counterintuitive, companies that are singularly focused on creating financial value for shareholders are the most likely to generate benefits both for themselves and for everyone else too.

China's $1.1T Asset Manager To Be Star Player on CCP's "National Team"



State-owned Central Huijin, an arm of China's sovereign wealth fund, made headlines last week as it intervened to prop up China's domestic stock market, the Financial Times reports.

What's Going On: Central Huijin has supported the country's financial system for over two decades. But its holdings of exchange traded funds have soared seven-fold year-over-year, as the Chinese government has been scrambling to find ways to boost and stabilize the economy. In April, Huijin publicly declared itself as playing on the "national team," openly acknowledging its role to help set a floor on China's stock market during times of distress.

Why It Matters: While creating a price floor for Chinese stocks might seem like a good thing for investors, it creates substantial risks:

- **Increased CCP Influence:** While Huijin disavows any attempt to control companies' day-to-day operations, it also describes itself as an "active shareholder" that seeks to "guide" the companies in which it invests. For state-owned entities, this means one thing: alignment with party values, whether that means censoring dissenting views, installing party cells in corporate headquarters, or engaging in potential human rights violations. None of this blurring between state-owned and ostensibly-private companies helps shareholders.
- **Potential Harm to U.S. Competition:** For investors with diversified portfolios, China's move to prop up its own publicly-traded companies could also harm U.S. companies that are competing for Chinese consumers without CCP support. It's the same kind of domestic favoritism that U.S. companies have historically faced, but now backed by an additional $1.1 trillion in potential support.
- **Increased Uncertainty:** Concentrating ownership in the hands of the Chinese government may seem to create stability for now, but could create turmoil in the future should the CCP decide to sell off its shares.

Strive's Take: China risk is investment risk, and any move that allows the CCP to tighten its control over the Chinese market is unlikely to help U.S. investors over the short-, medium- or long- term.

Pension Funds Eye Bitcoin to Solve Funding Crisis

Pension board elections are typically dull affairs. But this year, California's CalPERS—the largest public pension fund in the nation—is drawing attention as Dom Bei, a firefighter and union leader, mounts a campaign on an unlikely issue: Bitcoin.

His platform challenges the fund's chronic underperformance and governance drift, arguing that Bitcoin deserves a seat at the table. As Bei put it on the TFTC podcast, "We don't need pensions to go all in. Just get off zero."

That message is resonating more broadly than you might expect. In recent weeks, *Forbes* highlighted the growing interest from public pension funds—Wisconsin, Michigan, and a UK plan advised by Cartwright—that are beginning to allocate to spot Bitcoin ETFs. And North Carolina may soon join them: a new bill would authorize the state treasurer to invest up to 5% of its $127 billion pension fund in digital assets, though Treasurer Brad Briner says its initial allocation would likely be under 1%. Over a dozen other state pension funds are now considering similar moves.

These aren't Bitcoin natives. They're institutional fiduciaries, bound to protect retiree benefits over decades in an increasingly unstable macro environment. Current funding isn't sufficient. CalPERS' funding ratio sits around 75%; North Carolina is somewhat better funded at 89%, but still about $15 billion short. Nationwide, public pensions are underfunded by roughly $1.4 trillion. Yet many remain anchored to outdated assumptions and overly cautious allocations—missing opportunities while liabilities balloon.

Bitcoin offers a way out. Born in the wake of the last financial crisis, it offers what no other asset class can: verifiable scarcity, monetary independence, and long-term performance that has continued to outpace nearly every benchmark. For institutions with multi-decade time horizons, even a 1-5% allocation can meaningfully alter a portfolio's risk/reward profile.

Pension fund investment in Bitcoin may also influence Bitcoin's trajectory itself. We've written about how states like Arizona and Texas are establishing strategic Bitcoin reserves—essentially state-level sovereign wealth funds. But those efforts typically require new sources of capital, either through legislative appropriation or the seizure of digital assets. Pension funds are different; they already control massive pools of capital. At the end of 2024, state and local pension systems managed over $6 trillion. Even a modest 1% allocation to Bitcoin would make U.S. public pensions the largest collective holder of Bitcoin—surpassing both BlackRock and Satoshi by a factor of three. The addition of these long-term, sophisticated holders of Bitcoin will likely be a stabilizing force, creating benefits for both Bitcoin investors and the pensioners whose financial future depends on sound stewardship.

No one is arguing Bitcoin will fix pensions overnight. But in a system strained by inertia, inflation, and underperformance, it's a vital piece of the solution. And thanks to leaders like Bei and Briner, the conversation is finally starting to happen where it matters most.

Voting Spotlight: Salesforce

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

Earlier this month, Strive voted in favor of Salesforce's executive compensation plan. Last year, we voted against the plan because 10% of executives' cash bonuses were tied to meeting ESG goals, including DEI and environmental targets. Executives were penalized, for example, for failing to ensure at least 48.5% of U.S. employees identify as an underrepresented minority or a woman, but were rewarded for pressuring at least 45% of their suppliers to adopt sustainability goals. This year, the company expressly changed its policy, explaining: "the Compensation Committee removed environmental, social, and governance metrics from the 2025 Annual Performance Bonus Plan and measured Company performance solely based on pre-established financial performance metrics and targets."

Because Strive believes that ESG goals have no place in executive compensation packages, and that executives should be incentivized based on financial performance alone, we supported this change.

The Best of The Rest

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

- DEI hushing continues across corporate America: "Practicing DEI in 2025 is like getting into a speakeasy, except the key is to *not* say the magic words."
- Texas advances bill aimed to curtail abuse by proxy advisors; the law, now awaiting Governor Abbott's signature, would require them to disclose if they use nonfinancial ESG factors in voting recommendations.
- Political gap in investing widens as Democrats and Republicans have very different views on the market outlook.
- California Public Utilities Commission threatens to block merger over DEI rollback; new investigation comes after Verizon pledged to drop its discriminatory, quantitative hiring goals in letter to the FCC seeking federal-level approvals.
- Governor Abbott signs bill to create state Bitcoin reserve; Texas will become the largest state to establish a reserve, seeking to bolster its image as a technology and cryptocurrency hub.
- HSBC broke its pledge to withdraw financing from companies expanding coal production; in 2021, HSBC promised to stop financing new coal projects and drop customers that took on new expansion efforts, but has since loaned $2.4 billion for such efforts, including a "$900 million loan for JSW Steel, which is building a 900MW coal- and gas-fired power plant in India" and "a $300 million bond issuance for a subsidiary of Power Construction Corp. of China."
- White House warns UK of risks of Chinese wind turbines; cites concerns that China may be using the green energy push to embed electronic surveillance technology in wind turbines, particularly near military bases.

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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.