STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: 21 states warn the Big Three to drop ESG goals; Researchers study ESG aversion; The Bitcoin Brief witnesses Strategy's march to the S&P 500 and the "Uberization" of Bitcoin.

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21 States Warn Big Three to Drop ESG Goals

Twenty-one states have written to BlackRock, State Street, Vanguard, and other large U.S. financial institutions asking them to abide by their fiduciary duties by abandoning value-destructive ESG goals, the New York Post reports.

What's Goin On: The coalition of state financial officers wrote to asset management CEOs to "express our deep concern about the erosion of traditional fiduciary duty," explaining that "many large financial institutions have used their positions as stewards of trillions in passive investments ... to advance social and political agendas that fall outside the scope of materiality and positive financial return." While the letter notes that "some firms have recently taken encouraging steps," including scaling back ESG rhetoric and votes, "more work must be done."

The Legal Landscape: While this is not the first time state financial officers have voiced concern over ESG activism, the new letter highlights legal developments that underscore the problems with ESG investing. In particular, the letter points to *Spence v. American Airlines*, where the court found that American Airlines "breached its duty of loyalty under the Employee Retirement Security Act by allowing BlackRock to use proxy voting policies to advance environmental, social and governance goals."

What They Want: The letter asks recipients to:

- Stop framing climate change as "certain and catastrophic to justify forcing companies to take immediate action that may not align with their long-term business interests."
- Stop using passive investment vehicles for socio-corporate activism.
- Stop embedding international political agendas into default investment strategies.
- Revise proxy voting and engagement guidelines to focus exclusively on shareholder value, and
- Disclose all affiliations (such as with climate groups) that could influence investment or engagement priorities.

What's Next: Responses are due September 1.

New Study Sheds Light on ESG Aversion

A new study shows a "robust and significant ESG penalty" for startups seeking venture capital funding, the Harvard Law Forum on Corporate Governance reports.

The Study:

- Researchers from the University of Michigan, Stockholm School of Economics, and the Swedish House of Finance teamed up to test whether startups with an ESG bent were viewed more or less favorably by venture capitalist firms.
- To do so, they recruited 409 U.S. startup founders and 129 VC investors to participate in experiments where they evaluated hypothetical company profiles, believing their input would train a real-world algorithm.
- ESG attributes were randomly assigned to certain startups, along with other factors known to influence decisions (like whether a founder went to a top school) to determine whether the ESG focus helped or hurt companies, and by how much.

The Results: Researchers found that both startup founders and VC investors were more than 5% less likely to express interest in an ESG-oriented company compared to one that was profit-focused. The effects were significant, on par with the effect of a founder lacking prior entrepreneurial experience.

The Rationale: Notably, once financial considerations were removed, both startup founders and venture capitalists revealed a strong *preference* for ESG, but this preference was suppressed by both sides' belief that ESG focus detracts from financial performance.

Why It Matters: The study validates what Strive has long argued—that ESG mandates come at the expense of profits. The VC market's honest assessment reveals that ESG constraints genuinely impede business performance, which is why investors instinctively avoid them when their own money is on the line.

ICCR Report Shows ESG Engagements Still Work

A new report from the ESG activist group Interfaith Center on Corporate Responsibility (ICCR) reveals that they are continuing to successfully push their social and environmental priorities on corporate America.

Catch Me Up: ICCR is a nonprofit whose members include churches, asset managers, foundations, labor unions, and pension funds who use their position as shareholders to push companies to pursue ESG goals. Corporate engagement is a key tactic. Typically, a member will file a shareholder proposal urging the company to improve on some ESG metric, and then use that proposal as leverage to reach a negotiated agreement.

The Agreements: This year, ICCR reached agreements with 66 different companies, including:

- Starbucks, which agreed to increase reusable cups by 2026;
- JP Morgan, which agreed to consider the impact of its operations on Indigenous Peoples;
- Costco, which agreed to develop an anti-deforestation plan for its Kirkland products;
- Wyndham, which agreed to cut plastics in its operations;
- Altria, which agreed to evaluate whether its marketing of tobacco products targets certain racial and ethnic groups;
- Moderna, which agreed to update its human rights policy to include the "right to the highest attainable standard of physical and mental health"; and
- XPO Logistics, which agreed to a near-term target of electrifying a percentage of its yard tractors by 2030 to fight climate change.

The Shift in Strategy: As public support for ESG measures has waned, activist tactics have evolved. In years past, proxy voting was probably the strongest tool in the ESG activists' arsenal: they'd make a proposal, put it to a shareholder vote, enjoy substantial support, and wait for companies to fall in line. Now, fewer asset managers are willing to publicly support ESG measures by voting for them at the corporate ballot box.

Engagement Matters: But private negotiations are proving just as effective, if not more so. Behind-the-scenes engagements allow companies to make commitments without the public spectacle of a proxy fight, while activists still achieve concrete policy changes. The ICCR's 66 agreements demonstrate that ESG influence hasn't disappeared, it's simply gone underground, where it may prove even more durable.

Strategy's Path to the S&P 500 and the "Uberization" of Bitcoin

Strategy's recent earnings performance has positioned the world's largest Bitcoin treasury company just one committee meeting away from inclusion in the S&P 500—a development that could fundamentally cement Bitcoin's place in American financial life.

Strategy's $100+ billion market cap has long cleared S&P's threshold, making it just one of two companies above that mark not in the index (ad-tech company AppLovin shares this distinction). That's because the index creator requires more: U.S. domicile, major exchange listing, and profitability over the last quarter and year. The final requirement had been the sticking point. Until now. MSTR's monster Q2 earnings rendered the company profitable over the past 12 months, clearing the final hurdle for potential inclusion as soon as September.

The company's index journal has been complex. Strategy was previously included in the S&P 600 (the S&P 500's little brother) prior to 2021, but fell out due to profitability constraints—a casualty of outdated accounting principles that don't properly account for Bitcoin. More recently, MSTR gained inclusion in the tech heavy Nasdaq 100, but the S&P 500 had still been just out of reach.

But despite checking all the boxes, Strategy may not make the cut, as admission remains discretionary upon committee approval.

By many metrics, the decision should be easy. Strategy returned 179% this year compared to the S&P 500's 22%. And Strategy's $10 billion in Q2 net income would place it in the index's top ten, between Berkshire Hathaway and Exxon Mobile. It stands to reason that any company making the top 10 should make the top 500.

Still, Strategy's inclusion isn't guaranteed, as Tesla shareholders know too well. In 2020, S&P snubbed the electric carmaker despite impressive returns, admitting the much-smaller Etsy instead. While decisionmakers didn't provide a rationale, market analysts pointed to Tesla's volatility as a concern.

That could prove troublesome for Strategy, whose five-year beta of 3.86 would make it the S&P 500's most volatile company, with nearly double Tesla's volatility profile.

Still, Strategy and Bitcoin's price swings aren't what they used to be and will likely continue declining as institutional acceptance grows. Notably, even volatility bad boy Tesla was admitted the very next quarter.

Should Strategy make the cut, the implications will likely reach far beyond its stock price. It would likely trigger what CFTC Acting Chair Caroline Pham calls the "Uberization" of Bitcoin—integrating digital assets so deeply into American economic life that attempting to ban them becomes nearly impossible.

That's because MSTR's inclusion in the S&P 500 would instantly give tens of millions of Americans Bitcoin exposure through their pension funds, 401(k)s and brokerage accounts. Not because their investment managers will suddenly buy Bitcoin, but because tens of millions of Americans are already invested in index funds that track the S&P 500. When the index adjusts to add MSTR, their index-fund-based portfolios will automatically shift too.

The magnitude can hardly be understated. The S&P 500 holds roughly 3-6% of Magnificent Seven companies' publicly available float; if the same holds for Strategy, millions of Americans would cumulatively own a multi-billion dollar slice of the company's Bitcoin-baked pie virtually overnight, without ever thinking about digital wallets or visiting a crypto exchange.

That mass adoption makes Bitcoin too big to fail. As Pham noted, when digital assets become "so big, so accepted, so part of our lives, you can't really take them away." It's one thing for regulators to target a niche digital asset. It's quite another to threaten the retirement security of teachers, firefighters, and middle-class savers whose index funds happen to hold the S&P 500.

Whether that happens in September or not, one thing is clear: Bitcoin's leap from monetary experiment to blue-chip holding is already underway.

Strive's Jeff Walton to Speak in Hong Kong

Strive VP of Bitcoin Strategy, Jeff Walton, is slated to speak at Bitcoin Asia in Hong Kong later this month, where he plans to share his views on corporate Bitcoin adoption, the evolution of Bitcoin backed credit, and Bitcoin as a hedge to AI and global monetary debasement. His mission? Accelerate Bitcoin education to upgrade the world.

Learn More

The Best of The Rest

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

- Florida Attorney General launches probe into climate groups; issues subpoenas to the Climate Disclosure Project and the Science Based Targets Initiative to determine whether they violated antitrust law.
- Disney settles lawsuit with actress Gina Carano; the Mandalorian star had sued Disney for discrimination after it allegedly fired her for her political views.
- UBS exits net zero group while emphasizing that its "commitment to sustainability remains unchanged."
- Conservative activist Robby Starbuck to work with Meta to combat political bias in chatbot products; announcement is part of settlement agreement after defamation lawsuit.
- EPA considering terminating $7B "Solar for All" program; move seen as part of the administration's rollback of investments in renewable energy.

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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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