STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

September 19, 2023

This Week: JP Morgan cools on China; lawmakers advance bills to protect retirees from ESG; the Big Three's "Voting Choice" programs come under fire; and more.

JP Morgan's Jamie Dimon Cools On China: "The Risk Is Bad"

Jamie Dimon is more pessimistic on China, as Fortune reported last week. The JP Morgan CEO shared his views at a Barclays conference in New York, explaining that he was "highly cautious" of investing in the country.

The statements come as a reversal from the executive's public statements following a trip to China in May, in which he was much more optimistic about the country's post-Covid reopening. The bank he runs has similarly been more pessimistic, with JP Morgan slashing China's GDP growth forecasts from 6.4% in April to 4.8% in August.

JP Morgan is not the only one cooling on China. As China's economic troubles become more clear, and geopolitical tensions with the U.S. continue to rise, both pension fund managers and Wall Street titans have become skittish on investing in the country, while ETFs that exclude China are on the rise.

House Committee Advances Four ESG Bills

On Thursday, the House Education and Workforce Committee advanced four bills designed to protect workers and retirees from having their retirement savings used to pursue ESG goals, the National Association of Plan Advisors reports.

The bills come after the Biden Administration issued regulations rolling back such protections, allowing plan managers to consider ESG factors when investing retirees' funds. When introduced earlier this month, lawmakers said the bills would "ensure financial institutions are focused on maximizing returns in retirement plans rather than on woke environmental, social, and corporate governance (ESG) factors."

The four bills include:

- The Roll Back ESG to Increase Retirement Earnings (RETIRE) Act, which requires financial institutions based investment decisions "solely on economic factors";
- The Retirement Proxy Protection Act, which makes clear that proxy voting and engagement activities must also be made solely to advance economic interests;
- The No Discrimination In My Benefits Act, which prohibits hiring retirement plan managers or employees based on race or gender; and
- The Providing Complete Information to Retirement Investors Act, which requires plan managers give notice to investors on the difference between choosing investments selected by ERISA fiduciaries versus from a brokerage window.

While the bills send a strong message that protecting investors from ESG-based threats will remain a priority for lawmakers, it is unlikely such bills will be enacted into law any time soon. Notably, lawmakers' first attempt to overturn the Biden Administration's pro-ESG regulations passed Congress, but was vetoed by President Biden in March.

"Voting Choice" Programs Don't Let Investors Maximize Returns

The Big Three asset managers—BlackRock, State Street and Vanguard—have all recently launched "voting choice" programs amid backlash from financially-minded investors, purporting to give investors more control over how the firms vote their shares. But these programs may actually lead the Big Three to vote shares in a *more* pro-ESG way, according to an op-ed in the New York Post Saturday.

The main reason is that these programs don't actually allow individual investors to cast their own votes—e.g., to vote against a racial equity audit at Home Depot or a carbon emissions reduction proposal at Chevron. Instead, investors must choose from a handful of pre-set voting policies, mostly or exclusively offered by the proxy advisory firms Institutional Shareholder Services (ISS) or Glass Lewis. But as the piece explains, these firms are both foreign-owned and "follow United Nations-led efforts like the Sustainable Stock Exchanges Initiative and the Principles of Responsible Investment, which sound harmless enough but essentially work to ensure that your investment dollars are led by progressive policy priorities, not financial returns." As a result, these "proxy advisors have been *more likely* to recommend voting with progressive activists than even the Big Three asset managers."

Accordingly, with "voting choice," the only "choice" BlackRock investors have is to allow BlackRock to vote their shares in the generally pro-ESG way it's been voting for years, or to allow ISS or Glass Lewis to do so in an even more extreme manner.

The New York Post is not the first to criticize these programs. In August, Real Clear Markets called the move "little more than a ruse that neither empowers investors nor diminishes BlackRock's power to impose its ESG goals on American businesses." And last year, an op-ed in the Wall Street Journal went further, explaining that even giving investors the right to vote on each ballot item is insufficient because the Big Three wield most of their power in their behind-the-scenes engagements with company leadership, which would be unaffected by changes in voting policies.

Survey Finds Rise In ESG-Linked Executive Compensation

A new survey shows the dramatic rise in ESG-linked executive compensation packages over the past year, JD Supra reported Tuesday.

Researchers at the IBM Institute for Business Value interviewed 3,000 CEOs from over 30 companies about their compensation practices and sustainability goals. About half of CEOs had their compensation tied to ESG goals, a significant increase from the 15% of CEOs who reported ESG-linked compensation last year. These findings are in line with a report published in the Harvard Law School Forum on Corporate Governance earlier this month showing that 72% of S&P500 companies now include ESG metrics in executive compensation, up from 70% last year.

Such packages withhold a portion of the CEO and executive team's bonuses unless the company makes progress towards non-financial diversity and sustainability goals. Nike, for example, uses a "People + Planet" modifier through which a portion of an executive's bonus can be adjusted upwards or downwards up to 20% depending on whether the company makes sufficient progress towards its "Purpose targets," which include racial quotas in leadership, minimum spending with minority owned businesses, and slashing emissions.

ESG linked compensation has recently come under criticism for using "fluffy" metrics that executives can game for additional cash and for incentivizing executives to prioritize other stakeholders over their shareholders. Despite these concerns, ESG-linked compensation appears to remain on the rise.

The Best of the Rest

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

- California legislature passes climate disclosure rules for businesses; Governor Newsome expected to sign
- Companies are moving away from the "ESG" label; but continue to practice ESG by other names, Walmart, GE & Colgate execs say
- Less than one in five directors think ESG has improved financial performance; yet most continue to say it's a priority, WSJ survey found
- US and Vietnam announce new chip partnership; agreement intended to "support resilient semiconductor supply chains for US industry, consumers and workers" and decrease reliance on China
- OPEC says IEA's claim that fossil fuel demand will peak by 2030 not "fact-based"; "Such narratives only set the global energy system up to fail spectacularly" and create "energy chaos," OPEC's General Secretary said.
- New study shows ESG adoption doesn't crowd out regulation; debunking the argument that voluntary ESG initiatives enhance financial value by warding off more onerous government regulation
- House Committee on Strategic Competition Between U.S. and CCP receives testimony from former hedge fund CEO and Treasury Department official David McCormick: "my worst fears about the CCP have come true"
- House Financial Services Committee holds separate hearing on China risk
- ESG reporting increasingly imposed on private businesses through far-reaching state and federal regulations
- Morningstar's ESG arm Sustainalytics lays off 12% of staff but "remains committed to growing our ESG capabilities"

An Eye on Energy

Updated OPEC+, IEA and EIA Oil Market Forecasts

The International Energy Agency (IEA), Energy Information Administration (EIA), and Organization of the Petroleum Exporting Countries (OPEC-13 or OPEC+) updated their oil market forecasts.

All have expressed that they expect the gap of oil demand over supply to widen for the rest of 2023. The groups' forecasts vary and some contention has developed between OPEC+ and the IEA on future demand projections.

OPEC sees an average supply deficit of 3.3 million barrels per day (mb/d) in the fourth quarter (the widest since 2007). OPEC maintained its demand growth estimate for 2023 at 2.4 mb/d and said that growth will ease to 2.2 mb/d in 2024. EIA sees Brent crude price averaging $93 per barrel in fourth-quarter 2023 and easing to around $88/b in 2024.

The IEA sees the oil price remaining above $85 for the rest of 2023, noting that supply inventories are the lowest in over a year. The IEA believes that OPEC+ cuts will occur in 2024, and that the market will be at a surplus, and lower the upward price pressure. The EIA holds that inventory builds next year reflect slowing demand growth, non-OPEC oil production growth, and the end of Saudi Arabia's voluntary production cuts.

In sum, the current gap in supply and demand is applying upward pressure on the price of oil. If OPEC+ ends its extra cuts at the end-2023, pressure will ease into 2024. Demand could disappoint if the global downtown is deeper than expected, or the recovery of tourism stabilizes.

However, with WTI rising over $92, we see it going higher over the next several months. At the moment global conditions will remain tight and this will impact global GDP growth and trade for the rest of 2023.

Strive News

Last week, Strive was featured in an article on ETF.com entitled "Ramaswamy's Strive: Not Just Another Anti-Woke Firm." The piece chronicles Strive's growth over the past year as it reaches the $1 billion mark in assets under management.

"The Strive differentiator is to mandate investment return maximization to every public company, which is defined as shareholder capitalism," Strive CEO and Chief Investment Officer Matt Cole told the outlet.

Eric Balchunas, a Bloomberg ETF analyst, told ETF.com it's a mistake to put Strive in the same category as anti-ESG asset managers that are equally political, but push conservative values rather than progressive ones. "Most anti-ESG funds just hold stuff that ESG investors hate, or they hold companies where the CEOs don't virtue signal," he said. "Strive is different, because they just own beta and are voting shares of companies in favor of profits."

Strive CEO Cole agreed. "For an asset manager to decide good and bad is fraught with issues," he said. "Just own your mission, make money, and do it unapologetically."

For more on Cole's investing views, listen to his interview with Bloomberg UK's Merryn Somerset Webb on the episode "Why UK Pensions Triple Lock Must Go and ESG Threatens Democracy" on her podcast Merryn Talks Money from Friday.

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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.