STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: A tale of ESG underperformance in two studies; Strive releases new white paper on proxy voting 101; An Eye on Energy explains the UK government's climate retreat; and more.

A Tale Of ESG Underperformance In Two Studies

Last week, the Financial Times published two articles documenting the underperformance of ESG investing strategies.

The first, published Thursday, reports on a new study by Scientific Beta concluding that "ESG ETFs have marginally underperformed their traditional peers." The study reviewed the performance of every U.S. equity fund categorized by Bloomberg as either "socially responsible" or ESG, comparing results over the past ten years to the indices they purported to track. Researchers found the annual underperformance of ESG funds was about 0.7 percentage points after balancing the sector weights between the ESG and non-ESG funds.

Commenting on the study, London Business School professor Alex Edmans noted that it "does a good job of highlighting the folly in simple claims like 'ESG investing outperforms, period' but these claims should have never been made in the first place as they were based on short-time series with inadequate controls. Unfortunately, they are lapped up uncritically due to confirmation bias."

The second study, reported on Friday, used a different methodology to reach largely the same results. Barclays analysts built two hypothetical portfolios identically matched for risk and sector, but set one portfolio to the maximum "E," "S," and "G" scores and one to the lowest.

The results were telling. The portfolio optimized for the highest "E" scores underperformed its low-E counterpart by -2.75 percentage annualized returns since 2014; the portfolios optimized for the highest "S" and "G" scores underperformed by -1.33 and -1.66 percent respectively.

These new studies will hopefully shed a light on unsubstantiated and misleading claims that ESG outperforms in financial terms.

Hedge Funds Shorting ESG Stocks

In what's perhaps an unsurprising move given the underperformance of ESG investing described above, hedge funds have been piling money into short positions on ESG stocks, Bloomberg reported last week.

In recent times, hedge funds have been shorting companies with high ESG scores, clean energy companies, and the recycling industry, believing they've become "bloated" with ESG investment capital.

As one such hedge fund manager told Bloomberg, the vast amount of cash being made available for ESG stocks are propping up companies that wouldn't survive on their own, and that climate stimulus is feeding "an asset bubble in this space" and sustaining some "completely terrible companies."

According to Bloomberg, hedge funds have made hundreds of millions of dollars using the strategy.

Litigants File Dueling Motions In ESG Lawsuit Over NYC Pension Funds

Litigants filed dueling motions in lawsuit over ESG investing in pension funds, Plan Sponsor reported Thursday.

The lawsuit, filed in May, was brought by five pension plan members alleging that New York City's pension funds breached their fiduciary duties by considering ESG factors when investing pension fund money, rather than focus on maximizing financial value alone.

The parties have now filed motions on whether the case should survive. Lawyers for the pension funds have called the lawsuit "meritless" and claimed that "[the pension funds] NYCERS, BERS, and TRS put their participants and beneficiaries first when they each decided to stop investing in fossil fuel companies," even though doing so has collectively cost institutions billions in lost returns. The pension funds also argued the lawsuit should be tossed because the pensioners hadn't lost any money yet, since New York might eventually find other ways to shore up their pension funds such that the pensioners' monthly checks might not be cut.

The pension fund members responded that they have already been injured by pension fund leaders' disloyal acts, and don't have to wait until the pension funds go bankrupt to sue. They also allege the breaches of fiduciary duty are clear:

> Defendants breached this duty by placing their own policy goals ahead of Plaintiffs' retirement interests. From its inception, Mayor de Blasio made clear that Defendants' divestment strategy was undertaken with the purpose of ensuring that New York City is "Leading the Fight Against Climate Change." Those were the words emblazoned on the event banner when the former Mayor and Comptroller "announced a two-pronged attack against the fossil-fuel industry." Tellingly, Defendants initially "expressed wariness" at the proposal, and trustees of the NYCPPF and NYCFPF openly stated that the former Mayor's project was inconsistent with trustees' fiduciary duties.

The Court will likely rule on the pending motion in the coming months, which will determine whether the case is allowed to proceed.

Texas Instruments Scores $2.3 Billion Subsidy For New Sherman-Based Semiconductor Plant

Texas Instruments secured a $2.3 billion subsidy from the City of Sherman to build its new semiconductor plant, the Dallas Morning News reported Friday.

The manufacturing campus will house four facilities and employ 3,000 new workers to make semiconductor chips amid a worldwide shortage and U.S. companies' increasing efforts to diversify their supply chains away from China. Texas Instruments is also applying for a grant under the CHIPS Act, to further support their efforts to build the $30 million facility in Texas and expand its manufacturing capabilities in Utah.

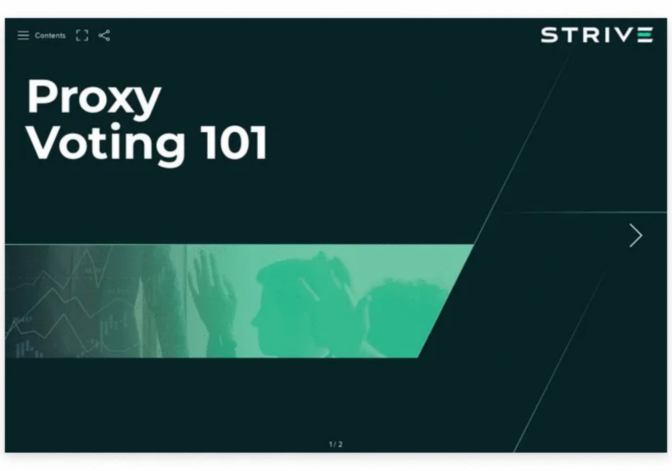
According to Texas Instruments, the Sherman plant could begin producing chips as soon as 2025.

Straight From Strive

Strive White Paper
Proxy Voting 101

In the past year, corporate proxy voting—a once a sleepy topic ignored by all but the most devoted corporate governance diehards—has entered the national lexicon, as financially-minded investors have shed light on how a tool designed to empower shareholders has been weaponized against them. Proxy voting now regularly makes headlines as stakeholder capitalism advocates have taken over the corporate ballot box to push initiatives like emissions cuts, racial equity audits, tying executive pay to diversity goals, and more.

But what is proxy voting? And how did we get to a place where societal change can be engineered by social activists and Wall Street titans via the backdoor of corporate America? Strive's latest white paper explores these issues and what investors can do to fight back. Read more by clicking the image below:



An Eye on Energy

PM Rishi Sunak's Approach to Net-Zero

The government of the United Kingdom (UK) has eased the pace of their energy transition net-zero emission timelines.

On September 20, UK Prime Minister Rishi Sunak announced that his government will decelerate several net-zero emission policies. The main areas include delaying the transition away from fossil fuel use in boiler systems and cars from 2030 to 2035 and no new taxes that discourage flying.

PM Sunak said that he desired a "honest debate" regarding the cost of the climate mitigation and net-zero. The PM may view this issue as important to improving his Conservative Party's electoral standing in next year's election.

After the announcement, polling has indicated an increase in support for PM Sunak's party, an unsurprising result given voters' resistance to footing the bill for climate policies.

Due to the economic conditions that have persisted since 2022, the cost of living and energy security issues (including net-zero) have gained significant importance to the consumer and voter.

It will be important to see if a more measured approach to decarbonization of the economy will resonate and win swing voters in the UK's next general election. The election is expected to occur around November 2024 but PM Sunak can wait as late as January 2025.

If the UK's policy change shapes the narrative of the election, it may provide insight to the energy industry on whether recent suggestions that fossil fuel demand will peak in 2030 are realistic.

This matters because the perceived pace of the energy transition will impact investment decisions being made today regarding the level needed to meet further demand growth between 2027 - 2035.

The Best of the Rest

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

- New report shows red state pension funds showed huge support for pro-ESG shareholder proposals; states like Texas, Florida, West Virginia and Alabama voted for more pro-ESG proposals than the Big Three asset managers
- SEC fines DWS for greenwashing; firm "marketed itself as a leader in ESG" but "failed to follow the ESG investment processes that it marketed"
- Companies are overwhelmed by ESG and sustainability disclosure requirements; the "relentless bombardment of ESG-related inquiries has given rise to greenwashing" and excessive burdens on companies, one expert claims
- China blocks executive of U.S. firm from leaving mainland China, "heightening concerns about the risks foreign companies face when doing business in the country," the Wall Street Journal says.
- 2023 corporate governance update in the Harvard Law Forum for Corporate Governance highlights legislative developments, shareholder proposals, company strategy and more
- UN Net Zero Asset-Owner Alliance members met in New York; discuss climate plans and need to set intermediate targets to fight global warming
- ESG is a bait and switch scheme that promises to mitigate risk, but really diverts money towards social and environmental goals, argues one economist
- Malaysia sees growth in semiconductor manufacturing as more U.S. chipmakers seek to diversify supply chain away from China

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Strive News

On Thursday, Strive CEO Matt Cole spoke about the role asset managers should and should not play in setting social policy on a panel at the Financial Times' Future of Asset Management Conference in New York.

Ignites highlighted the discussion, in which Cole said that societal issues should be resolved through the ballot box, not shareholder initiatives. Making net zero commitments isn't "part of our fiduciary duty as an asset manager," Cole said. Nor is "the notion of hiring based on gender and race" rather than "meritocracy." Instead, Cole emphasized that the purpose of a for-profit corporation should be maximizing value for its shareholders alone.

Cole faced pushback on these positions from the other panel members, including a member of the Net Zero Asset Managers Initiative, who felt that shareholders should be taking the lead in setting environmental policies, rather than leaving the task to government regulators. Despite these arguments, Cole stood firm in his position that companies should focus on maximizing financial value alone.

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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.