STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

November 15, 2023

This Week: Learn about Strive's votes; asset managers still love ESG; an Eye on Energy analyzes the oil market.

Straight From Strive

Learn About Strive's Votes!

'Tis the season. Election season, of course. And to celebrate, Strive's Head of Corporate Governance Justin Danhof will be holding a webinar to share Strive's approach to voting on corporate ballot initiatives in the 2022-2023 proxy voting season.

In our first year of voting, Strive has had to decide how to cast its ballots on issues ranging from asking companies to issue climate change reports to racial equity audits to China-related investment risk to executive pay proposals and more.

In every instance, Strive seeks to maximize long-term financial value for its clients. But every company is unique, and every proposal is different, meaning the impact of any given proposal varies from company to company. Strive therefore takes a hands-on, individualized approach that analyzes each and every ballot item to focus on value creation, setting all other considerations aside. We're proud of the work our team has done this year and excited to be able to share the results with you.

At Strive, there are no secret ballots. So tune into our webinar next Monday, November 20 to get all the details on how Strive voted and why. Participants will also get first access to Strive's 2023 Proxy Season Report, which provides even more insights into our voting philosophy.

Sign up for Monday's webinar here.

Vast Majority of Asset Managers Still Incorporate ESG Across All Offerings, New Survey Shows

On Wednesday, the investment consulting firm Callan released a new study showing that 75% of asset managers admit to incorporating ESG across their investment offerings.

The firm surveyed 1,200 investment managers across the globe, ranging from smaller asset managers with less than $10 billion in assets under management to global giants with more than $100 billion in funds. 80% of respondents were based in the U.S.

Despite the recent pushback against stakeholder capitalism, the firm reports that "ESG has gained traction" and that 75% of firms are "incorporating ESG considerations across the investment platform."

The incorporation of ESG efforts into firmwide activities was most pronounced among larger firms. The study revealed that nearly all asset managers with over $50 billion publish a firmwide ESG policy, and 90% have dedicated, full-time ESG employees. On the engagement front, 85% of large asset managers report engaging portfolio companies on ESG issues.

The "Greatest Sin" of ESG Movement Is Claim That It Maximizes Returns, Ex-BlackRock Head of Research Says

Last week, BlackRock's former head of research Carole Crozat sat down with Investments and Pensions Europe to give her views on sustainable investing and the ESG movement.

"The biggest sin of sustainable finance over the past 10 years—especially when it started going mainstream—is maintaining the illusion that those three objectives [financial performance, ethics and impact] could always go together," Ms. Crozat told the outlet. In her view, shortly after the 2015 Paris Agreement was reached, there was a genuine sense that everyone was going to work together to achieve climate-fighting goals, and that companies that set targets would be well positioned to navigate the transition. But that theory "completely unravel[ed]" after it became clear that progress was lacking, and that governments would always be more committed to economic growth than hitting climate targets. Yet even then, asset managers continued to push the ESG-makes-money message. "Big institutions have been investing in sustainability . . ., [but] it's getting harder to justify. Capitalism is a game with rules, and investors can't just stop playing by those rules, and lose, because it's ethical."

Her comments come just weeks after the UN Principles for Responsible Investing proposed requiring its signatories disclose their motivation for joining the organization. Signatories would have three options: (1) that they consider ESG issues solely in order to maximize financial return, (2) that they consider ESG issues to "to influence sustainability outcomes in the wider world as a means of reducing portfolio-level risks," or (3) that they consider ESG issues to "contribute to social and environmental outcomes for non-financial reasons." The new disclosure requirement would force BlackRock, Vanguard, and State Street—all longtime signatories to the UN PRI—to provide greater clarity on what, exactly, they are seeking to achieve with their ESG practices, which have come under scrutiny from the public and U.S. lawmakers alike.

Apple Criticized By Activist Shareholders Over Its Third-Party Labor Audit

Apple is facing new criticism from its ESG-promoting shareholders who have pushed the company to undertake a third-party audit of its unionization practices, Wired reported last week.

The saga began last year, when a coalition of ESG shareholders led by New York City's pension funds pushed Apple to conduct a third-party labor audit over concerns that it wasn't being friendly enough to potential unionization efforts by certain Apple workers. Initially, the company resisted the audit, apparently believing it was not in the best long-term financial interests of the company or its shareholders. The company reversed course, however, when the shareholders threatened to file a shareholder proposal to force the issue.

Now that the audit is underway, ESG advocates and pro-union workers have been continuing to criticize Apple in the press, complaining that Apple hasn't disclosed who the auditor is and hasn't interviewed certain pro-union workers who would like their opinions to be heard. To that end, pro-union workers wrote to BlackRock co-founder and Apple board member Sue Wagner late last month, complaining of violations of Apple's "human rights" policies and demanding to be interviewed as part of the audit.

As such audits have gained popularity among ESG advocates, both financially-minded investors and companies themselves have begun to question their prudence. In many instances, companies devote substantial resources to these costly third party audits, only to find them received with little fanfare. Other times, such audits seem to lead only to more criticism and negative press.

The results of the Apple audit are expected to be released later this year.

"Is CalPERS Still A Responsible Fiduciary?"

Last week, a new Forbes article questions whether California's largest public pension system, CalPERS, is acting as a responsible fiduciary in light of its latest climate commitments.

Earlier this month, CalPERS announced a proposal that would "more than double its climate-focused investments to $100 billion by 2030" and "consider selling stocks in companies with poor plans for the energy transition."

Now, that proposal is drawing scrutiny. As a public pension fund, CalPERS has a legal obligation to focus its investment strategy exclusively on maximizing returns for retirees. But its new investment strategy ignores the fact that "there is not a simple relationship between a company's approach to climate-related issues and returns," Forbes reports. Sometimes, fossil fuel companies outperform and investments in green energy lead to "devastating losses." The magazine further criticized CalPERS for its "hubris" in "believ[ing] that they know what each company's optimal climate plan should be, which is a narrow one-size-fits-all approach" that requires halving carbon emissions in seven short years, regardless of feasibility or costs.

There is one potential upside to CalPERS' divestment strategy: If CalPERS sells its stock in companies uninterested in diverting corporate resources to meeting CalPERS' climate goals, CalPERS will no longer be able to force the company to do so through shareholder engagements and proxy voting. And recent research shows that this pressure works: A new study out of USC concluded that "a 1 percentage point increase in a company's shares held by green pension funds" like CalPERS "was associated with an approximately 3 percent reduction in plant emissions over four years." CalPERS' decision to divest from companies that want to focus on business issues alone might be bad for California's public workers and retirees, but it's likely good news for the companies freed from CalPERS' badgering.

ESG Investing Underperforms Economically and Environmentally, New Academic Research Shows

On Thursday, Fortune published a summary of new research by academics at Stanford University and Stevens Institute of Technology concluding that "ESG metrics don't just make a portfolio less profitable, but also less likely to achieve its stated ESG aims."

The pair looked at hundreds of stocks traded on three major exchanges from 1998 and 2020 and found that trading that prioritized companies with the highest ESG scores did "not result in the most efficient portfolio in terms of risk-adjusted returns." Conversely, the duo found that investing based purely on traditional financial metrics led to a portfolio with better ESG scores than trying to use ESG factors when making investment decisions, indicating that ESG investing may not be improving environmental or social outcomes.

"[W]e find that the explicit targeting of ESG metrics leads to a portfolio allocation that is economically and environmentally worse than the market allocation. That is consistent with . . . recent research that has shown how the inclusion of uncertainty associated with an ESG metric lowers financial returns."

The researchers also surveyed 1,200 Americans to get their views on whether companies should pursue ESG goals. According to the researchers, there was "no statistical evidence that individuals believe companies should focus on other priorities besides maximizing shareholder value after accounting for their own ranking of ESG issues."

An Eye on Energy

Market Sentiment Is Causing Volatility

On November 5, Saudi Arabia maintained a voluntary 1-million barrels per day production cut until the end of 2023. Oil fell for a third week amid what investors see as a sign of weak economic growth. Also, the $3-4 "war risk" premium on oil since Hamas's October 7 attack into Israel did not hold and market perceptions of slowing demand have returned.

During a recent press conference, the Saudi oil minister claimed that oil demand was robust and the drop was a "ploy" put on by speculators. In his opinion, market participants were confusing higher oil exports with increased oil production, which he felt was "an abuse of numbers."

These comments echoed those made by the same energy minister in July 2008, when the price of oil reached a record high of $147.27 per barrel. At that time, he similarly claimed that speculation by investors was one driving force behind that oil price swing.

Notably, investors had a negative perception of the physical oil market in both cases. In 2008, the market was thought to be under-supplied, with Saudi Arabia claiming supply was sufficient. Today, the market is thought to be over-supplied, and Saudi Arabia is again claiming the opposite is true.

OPEC+ will determine the group's production policy at their next meeting on November 26. This year, OPEC+ has provided little policy guidance, emphasizing "data dependence." The energy minister himself has said that its decision is up in the air, and that the group will "mak[e] the decisions that are right when we have the data."

It remains unclear if speculation has impacted the oil market's movements in 2008 and today. What is clear is that investor sentiment will amplify commodity price fluctuations for the remainder of 2023. We believe that because of the conflicting economic signals and energy market forecasting, the data is a "psychological test" for markets, where investors may interpret the latest readings based on which narrative—bull or bear—has the upper hand.

But the Saudi energy minister is undoubtedly correct on one front: market demand for oil is not weak. And market sentiment may shift. If U.S. commercial inventories prove tighter than anticipated, and current geopolitical circumstances hold, investors will likely realize the strong demand for oil and push prices to the $130-140 range in the near term.

The Best of the Rest

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

- Banks are toughening targets for companies seeking ESG discounts; banks typically charge 2.5 to 10 basis points less for sustainability-linked loans if companies meet diversity goals or cut emissions and they're now upping requirements for companies to keep discounts.
- Ways and Means Committee holds ESG hearing; "virtue signaling is expensive" and "it's not just ESG funds that are pushing ESG policies," lawmakers learn.
- Corporate ESG enthusiasm is wearing thin; companies are puling back, or at least toning down the rhetoric, on ESG issues.
- ESG investing headed for multi-year purge; ETFs likely to be next on the chopping block.
- Joe Manchin urges SEC to reconsider climate reporting rules; proposed rules "would cause significant economic damage to both privately and publicly traded companies."
- Japanese carmakers face stay-or-go decision in China as China EV makers rapidly gain market share.
- Chief Diversity Officer roles on the wane; after flurry to hire in 2020, many companies have decided to eliminate the role.
- Proliferation of climate disclosure regimes "confusing market" and creating inconsistencies.
- U.S. chip firms participate in 2023 China import expo, despite growing restrictions.
- UK net zero minister says "there is nothing fundamentally wrong with oil and gas" as country pulls back on climate commitments.
- Ikea isn't de-risking in China; there is no "middle way," CEO says, as China falls from fifth-largest market to tenth.

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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.