STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Strive talks AI; BlackRock's ESG pullback called into further doubt; an Eye on Energy discusses OPEC+ meeting delay.

Straight From Strive

OpenAI signals a new phase in tech's AI race

OpenAI has been making headlines over the past two weeks after its CEO Sam Altman was unceremoniously fired by its non-profit board. The move stunned company employees, major investor Microsoft, and the world at large. But what motivated the surprise firing? Has AI made a true, cognitive breakthrough? What is the rumored model Q* that alarmed OpenAI's board of directors? And what could it mean for the American economy?

Strive answers these questions, and what it could mean for investors, in our research note on OpenAI.

To read the full version, click here.

More Reason to Doubt BlackRock's ESG Pullback

We've talked quite a bit about why financially-focused investors should view Larry Fink's purported retreat from ESG with more than a healthy dose of skepticism. BlackRock continues to be a member of stakeholder-capitalism focused groups like Climate Action 100+ and the Business Roundtable. Its own policies continue to push companies to adopt non-financial goals. And it consistently votes *against* proposals asking companies to set ESG metrics aside and focus on financial goals alone.

It turns out we're not alone in voicing concerns. Last week, Paul Fitzpatrick at the 1792 Project agreed that BlackRock's retreat is likely in name-only.

His article chronicles BlackRock's foray into ESG investing and subsequent retreat. But according to Fitzpatrick, the real reason for BlackRock's latest move is "that BlackRock's ESG activism may have already accomplished much of its goals" such that it no longer needed to use the hammer of corporate voting:

> BlackRock and others' high level of ESG proposal support in 2021 and 2022 pushed many companies to take on ESG initiatives that are largely standard practice across corporate America now. This includes reporting GHG emissions, setting net-zero emissions targets, publishing diversity data, meeting board diversity thresholds, and more. Proxy voting was merely the last resort if BlackRock did not get its way through negotiation or "engagement meetings" as the firm describes it.

This view is supported by BlackRock's voting rationales. Notably, in many instances, BlackRock voted "no" on ESG proposals not because it opposed the ESG objective, but because it felt the corporation had already adopted the ESG goal.

This understanding is also shared by ESG groups themselves. Just last week, leading shareholder advocacy group As You Sow shared its conviction that BlackRock's and other asset managers' ESG support was as strong as ever. That's because everyone already knows where BlackRock stands, and the real action takes place behind closed doors. According to As You Sow's CEO, 70% of companies agreed to the nonprofit's ESG demands before a shareholder vote was held and other companies remain "in negotiations" with As You Sow even after the formal vote failed. "The only failed resolution is one that wasn't filed," As You Sow declared.

Given this reality, Mr. Fitzpatrick sees just one path forward: "To move past ESG, investors need to move past BlackRock and other activist asset managers." Only then can investors be confident that their asset manager is acting with their best financial interests in mind.

BP Needs New Strategy, Not Just A New CEO

As it continues its months'-long search for a new CEO, the British oil giant needs to focus on finding a new chief who will back off its renewables strategy and focus on making decisions solely based on return on capital, Bloomberg wrote last week.

Unfortunately for shareholders, this does not appear to be the case: "Instead of seeking an imaginative boss to reshape the company, BP is looking for a safe pair of hands to administer its current strategy."

That strategy, Bloomberg reports, is flawed. For years, BP, along with fellow EU oil producer Shell, has "pursued [an] aggressive 'lets-get-out-of-fossil-fuels-quickly' path." To do so, "BP is spending generously on lower-return projects outside its core oil and gas businesses," including $6-$8 billion on renewables projects.

Shareholders have revolted:

> Of the five major international oil companies, BP is the only one that's down (in US dollar terms) from January 2020, before the onset of the Covid-19 pandemic. . . [O]n a price-to-earnings basis, BP trades at a 4.1 times ratio, compared with nearly 7.7 times for Shell and 8.7 times for TotalEnergies SE. The American oil giants Exxon Mobil Corp. and Chevron Corp. trade above 10 times. BP's shareholders may understand the new strategy, but clearly they aren't buying it.

The bottom line for BP's bottom line is clear: "It's time for a truly new, bold and ambitious CEO — not a placeholder candidate implementing the same old strategy."

Pensioner Sues Oklahoma For Pulling Money From BlackRock And Other ESG-Promoting Asset Managers

Last week, a retired Oklahoma public employee filed a lawsuit against Oklahoma and its state treasurer Todd Russ. The suit asks the court to block a new state law requiring Oklahoma's pension fund to divest from asset managers that use their financial clout to "penalize [or] inflict economic harm" on fossil fuel producers rather than focus on financial return alone. As part of the new legislation, Russ issued a list of six firms that are barred from doing business with the state, including BlackRock, State Street and JP Morgan.

The lawsuit presents a number of legal theories, many of which are difficult to comprehend.

Plaintiff argues, for instance, that the new law violates a provision of the Oklahoma Constitution that prohibits pension funds from engaging in social or politicized investing. The reason? Asking asset managers to *not* to engage in politics is itself a politically-motivated move, and so not allowed.

Specifically, the Oklahoma Constitution requires the pension fund to invest contributions with the "exclusive purpose of providing [financial] benefits" for retirees without "divert[ing them] to any other purposes." Yet, according to Plaintiff, the new law violates this provision because it was passed to make a "political statement" against progressive, ESG-friendly firms like BlackRock. To support this claim, Plaintiff points to the Governor's statement that "as soon as you stop pushing a political agenda with our pension funds we are happy to do business with you."

In other words, a provision in Oklahoma's Constitution designed to *protect* pensioners from politicized, non-financially focused investing in fact has the exact opposite effect: It prevents the State (and pension fund officials) from taking any action to stop rogue asset managers from using pension fund money for ESG-related goals because any action to enforce this mandate would itself be pushing a political agenda.

Treasurer Russ responded in a statement that "the spirit and intention of the law is to protect Oklahomans and the economic base of the state." Oklahoma will also have an opportunity to file a formal response to the motion before the court rules.

Shareholder Activists Are More Confident Than Ever

Last week, the ESG shareholder advocacy group As You Sow participated an interview with The Lever, explaining how their activism works.

In an unusually candid acknowledgement, the podcast host explained that the term "shareholder advocate" doesn't really mean what it seems:

> Now if you hear that term and think, why would shareholders need their own advocates, don't worry, that's not what we're talking about. Shareholder advocacy leverages the power of stock ownership in publicly traded companies to promote environmental, social, and governance change from within.

In other words, shareholder advocates aren't actually advocating for shareholder interests, but those of other stakeholders. Indeed, "[q]uite often for a corporation, [ESG] decisions are pitted against increased returns." And "[t]hat's where shareholder advocates come in" to push the company to pursue ESG goals even at shareholders' expense.

Notably, As You Sow's CEO didn't correct this description of what the group is doing or claim it was inaccurate. Instead, he described how his group pushed Starbucks and other fast food restaurants to fight to eliminate plastic waste, commit to getting rid of styrofoam packaging, and more.

The interview thus lays bear what most investors already know: Even when shareholder advocacy groups and socially-conscious asset managers attempt to dress up their ESG advocacy in terms of financial return, the real motivation is to further non-shareholder interests instead.

An Eye on Energy

OPEC+ Delays Meeting, Adding To Uncertainty

The Organization of Petroleum Exporting Countries Plus (OPEC+) delayed its meeting from November 26 to November 30. The November 22 announcement placed downward pressure on the oil market sending the price of crude oil futures below $74 and kept it hovering at $76.

The delay most likely was because of both uncertain political and market fundamental conditions. OPEC+ will focus on developments in the Middle East and Asia, inflation data, global demand for OPEC+ oil, and non-OPEC+ production, especially in the United States. It was also later reported that the organization was having difficulty agreeing on output levels from Angola and Nigeria.

Politically, the new date of the meeting coincides with the commencement of the United Nations COP28 climate summit in Dubai. The delay also allows OPEC+ to assess the short-term truce between Israel and Hamas and de-escalation in Lebanon and Iraq. The Hamas-Israeli war has triggered concerns that its effects will reverberate beyond Israel, potentially escalating proxy conflicts in the Middle East and Asia.

Economically, global demand for oil in 2023 has exceeded expectations. Trade demand in consumer durables was disappointing last week, and in the U.S., consumers continue to see a risk of elevated inflation.

As we've said, these differing forecasts have been a psychological test for markets, where investors may interpret the latest data based on which narrative—bull or bear—has the upper hand.

What will OPEC+ do?

OPEC+ has a different view of future oil demand compared to the International Energy Administration (IEA) and U.S. Energy Information Agency (EIA), adding greater economic uncertainty and fragmentation in commodity markets.

- If OPEC+ applies its bullish 2024 demand growth forecast of 2.2-2.4 million barrels per day (b/d), OPEC + may decide to return supply to the market and relax voluntary production cuts from Saudi Arabia and Russia of 1.0 and 0.3 million b/d, respectively, while maintaining a higher price. These are in addition to an overall OPEC+ production cut of 3.66 million b/d.
- If OPEC+ applies a more bearish IEA and EIA view of 2024 demand at 900,000 and 1.4 million b/d, respectively, OPEC+ may announce deeper cuts in oil production because the market will be viewed as well-supplied. OPEC+ will note that EIA U.S. crude production data just showed an increase of 8.7 million barrels of oil inventory last week.

We see OPEC+ cutting production unless they drop the price of oil down to squeeze non-compliant OPEC+ members that are over or under producing. The psychology of the market by the OPEC+ meeting will matter.

At the moment, OPEC+ will have little space to ease cuts because various datapoints show increased supply from non-OPEC production. This will give OPEC+ room to help increase oil prices to help fund oil development projects in Africa to help meet future demand growth.

The Best of the Rest

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

- Rising interest rates may have been the pointy stick that burst the ESG bubble, economist Peter Earle argues.
- NYC pension fund head pushes eBay to adopt pro-union commitments; uses position as shareholder to pressure eBay to adhere to labor-friendly practices, without analyzing how such measures might affect shareholder return.
- Iron mining company Fortescue to delay some renewables projects; analysts view development as a positive as combined capital expenditure is estimated to exceed $6.2 billion, while return forecasts remain in doubt.
- Toyota faces push from Climate Action 100+ "for an accelerated transition"; the "joint investor effort" demands that Toyota "put further ambition into its EV sales target" and "accelerate progress in the steel sector" by moving to green steel.
- Wall Street "quietly scrubbing" ESG terms from fund names; asset managers are increasingly removing terms like "sustainable," "global impact," and "carbon transformation" from their funds, the Wall Street Journal reports.
- Canadian companies not ready for ESG reporting; companies face burdensome and potentially contradictory disclosure requirements from EU, California and Canada.
- Harvard Law Forum recaps state laws on ESG in public pension funds; as states like Connecticut and Maine have moved to require ESG-based investing, other state legislatures have required pension fund managers focus on financial issues alone.
- Climate finance expected to be big topic at COP28 next week; banks expected to use financial power as lenders and investors to fight climate change.
- Department of Energy announces $42 million for U.S. semiconductor projects.
- A call for companies to get "back to basics"; ESG is a "risky distraction," particularly as economy cools.
- Mars spends $1 billion on sustainability initiatives like reducing Scope 3 emissions and purchasing pricier deforestation-free palm oil and cocoa; CFO admits 40% of his bonus tied to sustainability goals.
- Glass Lewis publishes 2024 proxy voting updates; warns that it may recommend votes against directors if they fail to respond to "legitimate concerns" about diversity and inclusion, unionization, and other sustainability issues.
- Corporate diversity initiatives next to face scrutiny after Harvard affirmative action decision; advocates of merit-based practices seek to revise corporate DEI policies.
- SEC responds to Texas-led challenge to ESG voting disclosure rules; Texas argued SEC overstepped its authority.

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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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