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STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Strive talks gold; Disney admits politicization hurts shareholders; an Eye on Energy discusses what's next after OPEC+ cuts.

Straight From Strive

Tailwinds Lift Gold

Gold's price **spiked to an all-time high** of **$2,135 an ounce** early Monday morning before consolidating. But could it go higher? We see it as a distinct possibility.

For the past two and a half years, gold has been unable to break past its then-all-time high of **$2,080 per ounce**, but many believe it is because gold investors predicted higher inflation was coming, so they bought into it beforehand.

Gold competes with cash and bonds for a spot in investors' portfolios, and which of the three is more appealing depends on how high inflation and real interest rates are.

Inflation hit record highs in June 2022 and the Fed responded by raising interest rates, making asset classes such as fixed income more appealing to investors since they provided higher real rates of return. However, with inflation heading downwards, yields are likely to start declining due to the likelihood of the Fed cutting interest rates, thus making gold more attractive to investors.

Inflation is declining, at least for now. That means the Fed will likely cut interest rates, causing yields to drop. Sensing these developments, savvy traders may be increasing their gold exposure now, even before rates fall.

There's already evidence of this happening. Last Tuesday, Federal Reserve Governor Christopher Waller announced that if inflation continues to decline, the Fed could start lowering rates within three to five months. Gold prices then surged to a six-month high of **$2,052 an ounce**, followed by Monday's new high. As anticipated cuts become more likely to occur, gold prices will likely continue to rise.

There are other reasons to be bullish.

Geopolitical tensions are driving demand for gold since it's widely considered a safe-haven asset. As Liam Hunt, a financial writer for Gold IRA Guide, explains, "A regional war could disrupt global markets and supply chains, triggering capital into gold and away from speculative assets such as high-risk stocks."

Industrial and consumer uses are also driving demand. Aside from jewelry, various electronic and medical products use gold due to its potent properties. While expensive, its use in electronic components justifies the cost due to its excellent conductivity, corrosion resistance, and reliability. Demand for these products will continue to increase, especially as innovations arise.

On the supply side, gold mining has suffered (and will likely continue to suffer) from underinvestment due to ESG pressures. These constraints have increased the cost of capital of mining firms and adjacent industries, reducing supply and driving up prices. As the supply of fiat currencies increases, causing inflation, gold's limited supply becomes a catalyst for its prices.

While commodity markets are notoriously difficult to predict, we see all indicators—from falling interest rates, to increasing demand, to shrinking supply—pointing toward continued bullish sentiment for gold.

Disney Admits Politicization Hurts Shareholders

In a recent filing with the Securities and Exchange Commission, Disney acknowledged that its foray into politics likely alienated customers to the detriment of shareholders, the New York Post reported last week.

"Generally, our revenues and profitability are adversely impacted when our entertainment offerings and products, as well as our methods to make our offerings and products available to consumers, do not achieve sufficient consumer acceptance," the company wrote. "[C]onsumers' perceptions of our position on matters of public interest, including our efforts to achieve certain of our environmental and social goals, often differ widely and present risks to our reputation and brands."

The filing answers the question Strive posed to Disney's leadership last year: "how do Disney's politicized behaviors advance the economic interests of Disney's stockholders?" The answer is now clear: It does not.

In the year since Strive's letter, Disney has undertaken substantial reforms. It fired CEO Bob Chapek. Its new CEO Bob Iger committed to "quieting down" the political engagements. And it is now acknowledging that its pursuit of social and political goals comes at the expense of shareholders. But Disney's continued troubles highlight the often long-lasting effects of corporate social activism and how hard it can be to regain lost consumers.

Are Ratings Firms Secretly Revising Old ESG Scores To Make It Seem Like ESG Outperforms?

We've talked at length about multiple recent studies showing that ESG investment strategies tend to underperform financially speaking. And we've highlighted criticism of studies that purport to come out the other way: Authors cherry pick data or timeframes or use nontraditional methodologies to reach their desired result.

But last week, Joachim Klement at Substack exposed a practice that is even more concerning. At least one ESG ratings agency, it seems, has been quietly going back and changing ESG scores that companies received months or years before. Drawing on research led by MIT business professor Florian Berg, Klement explains how the ratings firm Refinitiv ESG altered historical ESG scores for several companies without explanation.

Why would they do this? Klement offers an explanation:

> The old ratings had no predictive power for future equity returns. Whether a company had a good or bad ESG rating did not matter for share price performance. After the . . . change[s]. . ., however, companies with better ESG ratings showed better future share price performance.

Accordingly, "[t]he authors of the study claim that ESG rating providers might mine the data and change their methodology in subtle ways so as to be able to show a better backtest result for the link between ESG ratings and subsequent share price performance."

This practice is unconscionable. Investors deserve the truth. From the investment advisors who give them advice to the asset managers that manage their funds to the ratings firms that purport to be giving honest, real-time assessments of a company's ESG credentials. If ratings firms are backdating scores to make it seem like their ESG ratings were able to predict financial results, it is investors, once again, who will be left holding the bag.

Car Dealers Ask Biden To Tap Brakes On Electric Vehicle Mandates

3,900 car dealers wrote to President Biden last week, asking the Administration to reconsider a proposed rule that would effectively mandate 2/3 of all new cars be all-electric by 2032.

The dealers have pushed back on the mandate as electric vehicles have piled up on their lots, even amid deep discounts. Early adopters who were excited about electric vehicles already have one, Axios reports; most remaining customers are simply uninterested in such cars.

As reality sets in, more and more car manufacturers are pulling back on their investments in electric—often to the chagrin of climate activists and ESG shareholders. In November, Ford announced it was scaling back a planned $3.5 billion EV battery factory after its EV unit lost $3.1 billion through the first three quarters of this year. And last week, GM similarly announced it was pulling back on its EV strategy in favor of buybacks.

Despite the softening of the EV market, climate-minded shareholders continue to push companies to overinvest in electric, likely to the detriment of shareholders. In June, for example, activists targeted Toyota, claiming the company was a climate "laggard" that needed a "concrete policy" to phase out combustion engine cars. While Toyota shareholders rejected the proposal, it is unlikely that climate-focused investors have permanently given up the fight.

Massachusetts Pension Fund Renames ESG Committee

In the latest rebranding effort, Massachusetts Pension Reserves Investment Management (MassPRIM) voted to rename its ESG committee the "Stewardship and Sustainability Committee."

Notably, the pension fund has not altered the substance of its ESG policies, which it describes as "one of the most progressive proxy voting policies in the country, covering issues from climate change to board diversity, say on pay, and worker rights." Its voting record bears this out. In 2023, MassPRIM partnered with Institutional Shareholder Services (ISS) to vote for the majority of shareholder proposals pushing GHG emissions reductions, climate reports, restrictions on fossil fuel financing, human rights reports, and diversity, equity, and inclusion initiatives.

Massachusetts's relabeling is just the latest in a string of name changes intended to dodge scrutiny from those who believe pension funds and asset managers should stay out of politics and focus on maximizing financial value alone.

The State Financial Officers Foundation—a coalition of state treasurers focused on financial returns alone—responded to the name change, saying, "Call it what you want. . . . Using retirees' [money] to push a radical agenda is a violation of your fiduciary duty."

An Eye on Energy

What's Next After OPEC+ Cuts?

On November 30, the Organization of Petroleum Exporting Countries Plus (OPEC+) agreed to additional voluntary oil output cuts of 2.2 million barrels per day (b/d) from January 1 to March 31, 2024. Russia will also reduce crude and oil products exports by 500,000 b/d. These are in addition to 3.66 million b/d in official OPEC+ cuts that will remain in effect until the end of 2024.

Cooperation within OPEC+ is intended to support oil prices, and the cartel's inability to secure a group-wide decision on oil policy was a concern in the oil market. Aside from Saudi Arabia, which has had a 1 million b/d reduction in place since July, there were only a handful of other producers who were willing to contribute to the production cuts.

OPEC+ believes that there will be stronger oil demand in 2024 compared to the International Energy Administration (IEA) and U.S. Energy Information Agency (EIA), but they did not have space to return oil supply to the market—various data sources showed an increase in supply from non-OPEC production and market sentiment is that there will be weak demand in 2024.

Today, the market is on edge and divergent forecasts have added to the uncertainty. New data is interpreted through the eye of the beholder, with investors interpreting data based on which narrative—bull or bear—they already believe to be true. This will add to volatility. If OPEC+'s demand projections are correct, and there is full compliance with the production quotas, oil supplies will tighten, and the cuts will be needed in the first quarter.

There is a complex dynamic within OPEC+ that reflects the geopolitical and economic fragmentation taking shape in a post COVID-world. We think that tension could grow, particularly if demand data remains uncertain.

The Best of the Rest

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

- Plaintiffs ask full court to reconsider Nasdaq diversity rule; three-judge panel had previously upheld the rule, but plaintiffs argue it serves only to "facilitat[e] discrimination."
- Elliot takes stake in Phillips 66; sees 75% potential upside as it seeks two new well-qualified directors on board.
- Will Delaware adopt the ESG agenda? Wall Street Journal readers debate new op ed arguing that Delaware is driving away corporations.
- Pharmaceutical companies facing new push for ESG from patient groups.
- Oil and gas companies put pause on lowering emissions amid recognition that "[d]ecarbonizing oil and gas procedure basically means planning for a production decline."
- Billionaire private equity firm co-founder is "more careful" about China risk; "A Chinese deal today just needs to bring a much higher expected return because you take much more risk," Urs Wietlisbach told Bloomberg.
- UAE hosted COP28 climate talks to make oil deals; sought to meet with 15 nations to discuss energy policy and projects.

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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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