STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Strive talks proxy voting; World Economic Forum urges companies to tie executive pay to climate goals; an Eye on Energy looks at Venezuela's new map.

Straight From Strive

Strive Talks Proxy Voting

Last week, Strive's Head of Corporate Governance Justin Danhof chatted with investors about Strive's approach to proxy voting in the 2022-2023 season.

During the webinar, Danhof explained that Strive's mission is to "reorient the capital markets toward shareholder primacy and away from the drift that we've seen toward stakeholder capitalism and the three-letter acronyms like ESG and DEI that regularly fly under that banner." And one of the major ways we do this is through our proxy voting.

Why are shareholder proposals so important? Because if you "move corporate behavior in a way that supports your values, you can affect not just corporate culture, but society writ large." This incentivizes non-financially motivated actors to use shareholder proposals to push social goals.

The webinar went on to discuss Strive's approach to proxy voting to maximize shareholder value. More detail on Strive's philosophy—including how we think about environmental, social, governance issues, as well as executive pay, board members, and more—is available in our post-season proxy voting report.

You can watch the webinar here and read Strive's full 2023 proxy voting report here.

World Economic Forum Urges Companies To Hold Back Part Of Executive Pay Unless They Meet Climate Goals

The World Economic Forum, in collaboration with the Climate Governance Initiative, recently hosted a forum to discuss the importance of tying executive compensation to climate metrics, panelist Shai Ganu wrote in a piece for Eco-Business last week.

The panel—comprised of asset managers and corporate leaders—claimed that there is a "growing consensus among investors" that companies need to "cut emissions" to fight climate change. To support this claim, the author points to "strong participation in investor groups" such as Climate Action 100+ (which boasts BlackRock and State Street as members) and the Investor Group on Climate Change (which count BlackRock and Vanguard as full members).

The panelists went on to detail the steps that companies should take to ensure that management prioritizes climate action, including "integrat[ing] climate ambition" into company goals, setting "short and medium term milestones," and financially rewarding management for meeting and exceeding these targets, including by using "multipliers" for achieving climate goals ahead of schedule. Climate safeguards should "be adopted with as much priority as capital adequacy requirements," one panelist argued, explaining that investors may vote out board members if companies resist.

At many companies, the message has already been received. According to the Harvard Law Forum on Corporate Governance, 73% of the S&P 500 tie executive compensation to some kind of ESG goal, up from 66% in 2022. The uptick comes even as research shows that ESG-linked executive compensation policies do not result in greater financial returns. Maximizing financial return on investment, however, did not appear to be a key theme in the World Economic Forum's panel discussion.

Nuns-Turned-ESG-Activists Take Aim at Smith & Wesson

Last week, a group of nuns sued Smith & Wesson to halt sales of assault rifles, arguing the guns are too dangerous.

Normally, such a suit might not be newsworthy. There's nothing unusual about a religious group advancing its moral beliefs, after all. But in a strategic first, the nuns sued not as concerned citizens or on behalf of gun victims, but as shareholders.

To do so, the nuns bought a few shares of the company's stock, and then filed what's called a shareholder derivative suit, arguing that company leadership is breaching its fiduciary duties to shareholders by continuing to make and sell the weapons.

The theory is a bit of a headscratcher. The group faults the company, for example, for "marketing and selling its AR-15 Rifles in whichever manner results in the most sales" and enjoying "record-breaking profits" as a result—i.e., for prioritizing shareholder value over social concerns, which is precisely what the board is supposed to do.

Notably, this is not the first time activists have posed as shareholders to promote their views. For the past five years, plaintiffs themselves have filed shareholder proposals asking the company to focus on safety; none gained majority support. And public pension funds like those in New York and Connecticut have used their workers' retirement money to send the same political message: adopt gun safety policies or we'll pull funds. But perhaps no one has been bolder than BlackRock, which has pressured the industry to cut sales, explaining that BlackRock's role is to "drive change" "in light of evolving societal expectations."

Smith & Wesson called the suit frivolous: "[it] is simply another instance in [a] long history of attempting to hijack and abuse the shareholder advocacy process to harm our reputation and company." Perhaps stating the obvious, the company claimed the nuns were not filing the suit to help stockholders.

While it's not yet clear whether the court will allow the case to proceed, one thing is worth remembering: The nuns may have taken a vow of poverty, but Smith & Wesson's real shareholders have not.

23 State Attorneys General Take On ISS And Glass Lewis For Pushing Banks To Use ESG-Based Banking Criteria

Iowa's attorney general, joined by 22 other states, wrote to proxy advisor firms Institutional Shareholder Services (ISS) and Glass Lewis over their efforts to encourage banks to use ESG criteria when making lending and banking decisions, the River Cities' Reader reported Tuesday.

Specifically, the two proxy advisory firms opposed shareholder proposals that asked banks and payment processors like JP Morgan Chase and Paypal to report on their debanking policies. These policies often encourage financial institutions to drop clients, charge higher interest rates, or make lending decisions based on whether the client's business aligns with the bank's ESG goals. In recent years, the practice has come under criticism from both the left and the right, as legal-but-socially-disfavored businesses from adult entertainers to abortion providers to fossil fuel producers have found themselves suddenly cut off from banking services.

From a shareholder perspective, it is not clear how dropping paying clients—and the revenue that comes with them—helps banks in financial terms. And as the attorney generals' letter points out, doing so often comes with legal and reputational risks for the banks as well.

The letter asks ISS and Glass Lewis to explain the rationale for their votes, including any materiality analysis they performed. ISS and Glass Lewis have until December 13 to respond.

Wall Street Admits To Cooling On China, But Only On The Condition Of Anonymity

Wall Street continues to cool on China, the Wall Street Journal reported Thursday. But few are willing to admit it.

The outflows are undeniable. "The amount of money that institutional investors have in Chinese stocks and bonds has declined by more than $31 billion this year, through October, the biggest net outflow since China joined the World Trade Organization in 2001." Hedge funds and private equity have pulled back too.

And critically, the reason has nothing to do with the ESG movement or social concerns. "Their motivation wasn't China's human-rights record, but its economic one," the Journal reports. China's economy continues to slow. Its real estate sector is hanging by a thread. And President Xi's crackdown on U.S. companies and executives has spooked investors.

But publicly, many on Wall Street still support China, afraid of offending the CCP leader. The Journal called out BlackRock, specifically, for its China double-speak. The world's largest asset manager underwrote a gala dinner with President Xi last month and gave a standing ovation. But financial concerns remain. The Wall Street Journal calls it a "two-track approach to China" where Wall Street executives publicly express confidence in China, while delivering a different, more candid message behind closed doors.

The risk to investors is plain. While large institutional investors and those in-the-know may be rushing to pull funds from China, the everyday investors who take BlackRock and others at their word may find themselves left behind. Hopefully, the word is now out: China risk is investment risk, and one for which every investor should be prepared.

An Eye on Energy

Venezuela's New Map

The United States Department of Treasury, Office of Foreign Assets Control (OFAC) lifted most U.S. sanctions on Venezuela's energy sector on October 18 for six months. The move will enable additional exports of much needed heavy, sour crude oil to enter the market. But only if Venezuela behaves.

Recent events suggest it may not.

Last week, President Nicolas Maduro held a referendum to gauge public support for Venezuela's claim of sovereignty over an oil-rich region of neighboring Guyana called Essequibo and presented a new map reflecting Venezuelan control of the region. The referendum, while criticized, showed 95% support for annexation.

President Maduro has also:

- Asked the National Assembly to pass legislation creating the new "State of Guayana Esequiba";
- Sent the military to the border;
- Ordered state-oil company Petróleos de Venezuela SA (PDVSA) to create a new PDVSA-Essequibo subsidiary, promising operating licenses for oil, gas, and mining operations and suspending licenses issued to ExxonMobil by Guyana; and
- Issued several arrest warrants for individuals who allegedly colluded with ExxonMobil to derail the Essequibo referendum.

His motivations are clear. Guyana has offshore oil and gas reserves estimated to be around 25 billion barrels equivalent, with Exxon leading a consortium that has made over 30 discoveries. The consortium expects to produce 1.2 million barrels per day in Guyana by 2027, up from around 220,000 today. Meanwhile, Venezuela's oil production has fallen from 3.2 million b/d in 2000 to 735,000 b/d in September 2023. Annexing these oil fields would boost the Venezuelan economy and so help President Maduro's dimming 2024 reelection prospects.

But annexation won't come easy. Guyana's President Mohamed Irfaan Ali said that his country would defend itself and promised to take the issue to the United Nations Security Council (UNSC). In the U.S., the White House has offered its "unwavering support" for Guyana's sovereignty, while the U.S. embassy announced that the U.S. held military exercise with the Guyana Defence Force. On the other side, Brazil—now an observer in OPEC+—has increased its troop presence in the border area.

President Maduro and President Ali will meet in Saint Vincent on December 14, but the risk of a more serious conflict is already affecting oil producers. Exxon, of course, is in the direct line of fire, and is being pressured by Venezuela to leave Guyana, although the company has stated that it is not backing down. Chevron may also be impacted: if Venezuela invades Guyana, analysts believe the U.S. will likely pull licenses allowing Chevron to operate there.

There are concerns that the Venezuela-Guyana dispute will become another proxy conflict between the U.S. and Russia. Annexation of Guyana would not only bolster production capacity for Venezuela, but move oil reserves from an OPEC+ competitor into OPEC+ hands, thereby potentially helping Russia in its efforts to keep prices high. While Venezuela's new map may only alter an area about the size of Florida, the effects will likely be felt across the globe.

Strive in the News

Last week, Strive Executive Vice President and Head of Client Solutions Laura Brady published a piece in The Daily Caller entitled "Don't Fall for Corporations' Fake Retreat from DEI."

The piece highlights Corporate America's latest dodge, quieting the rhetoric on their once loud-and-proud diversity, equity and inclusion (DEI) efforts while continuing to push the same value-destroying DEI agenda behind the scenes. Amazon, for instance, made headlines earlier this year for letting go of sixteen DEI staffers, but still has hundreds of DEI experts on its payroll and admits that its "DEI priorities have not changed."

How can this be? Ms. Brady explains:

> Real change is harder to come by, not just because clever executives believe DEI-hushing will let them have their cake and eat it too, but because the strategy is supported by the large asset managers whispering in their ears. The Big Three—BlackRock, State Street, and Vanguard—are the largest shareholders in 96 percent of Fortune 250 companies. And they've spent years pushing portfolio companies to use race-based metrics and promote DEI goals.

Strive is different:

> Despite the ever-present pressure on companies to prioritize social issues, our commitment to maximizing financial value for our clients is paramount. We advise our portfolio companies against fashionable but unprofitable social imperatives. At the corporate ballot box, we vote against ESG and DEI measures that force companies to waste time and money on programs that harm long-term shareholder value.

Read Laura Brady's full article here.

The Best of the Rest

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

- SEC aims to issue final ESG and climate disclosure rules by April 2024; two-year delay caused by significant public outcry, expense and legal risk posed by the proposed rules.
- New World Bank leader prioritizes climate fight; former MasterCard CEO directed 45% of investments towards green projects last year.
- Apple plans to make 25% of iPhones in India within the next two to three years, as part of effort to diversify away from China.
- Some U.S. lawmakers concerned Biden's ESG push could hurt Israel as pro-Palestinian activists and university officials could use retirement accounts to penalize Israeli companies and those that do business in Israel.
- Yale School of Management launches stakeholder capitalism speaker series; hosts talks with Unilever and Pepsi executives to "share views on the purpose of businesses."
- BlackRock is as ESG obsessed as ever but now talks in terms of the investment strategy's (largely debunked) "moneymaking potential rather than its contribution to the planet's welfare."
- Arizona rejects consideration of ESG factors in setting utility rates; says commission's role is to consider energy prices and reliability alone.
- McDonald's and Post join supplier sustainability program; agree to impose emissions reduction targets on suppliers throughout supply chain to align with climate change goals.

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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.