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STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Strive looks into its crystal ball for the 2024 proxy voting season; House committee writes to agencies on DEI and ESG; An Eye On Energy looks at Qatar's potential LNG dominance.

Straight from Strive

DEI on the Corporate Ballot: Strive's Predictions for 2024

Seeing into the future has always been tricky work. And we at Strive don't pretend to have a crystal ball. But after a year of harsh criticism of the once virtually unassailable DEI movement, we have some strong suspicions on how this year's proxy voting season might go.

More pressure.
More activism.
More focus on DEI.

And potentially less transparency—especially from companies and asset managers hoping the issue will stay under the radar.

That's where we come in. Strive Head of Corporate Governance Justin Danhof shares his views in a recent piece for the Harvard Law School Forum on Corporate Governance.

Read the full article here.

House Committee Writes to Agencies on DEI & ESG

The House Committee on Oversight and Accountability had a busy week last week, writing to both the Equal Employment Opportunity Commission (EEOC) and the Federal Reserve on their enforcement policies related to DEI and ESG issues, respectively.

The letter to the EEOC asked the agency to produce its internal communications, policy guidance, and enforcement efforts to combat discrimination in corporate America in the wake of the Supreme Court's decision in *Students for Fair Admission v. Harvard*.

The letter notes that state attorneys general are investigating Fortune 100 companies over their affirmative action and DEI policies, and calls on the EEOC to do the same. "As the federal agency responsible for enforcing federal laws against illegal racial discrimination in all types of work situations, it is critical that EEOC is taking all available measures to prevent and end unlawful employment practices that discriminate on the basis of an individual's race," the Committee writes.

Separately, the Committee also wrote to the Federal Reserve, asking the agency what steps, if any, it is taking to determine whether asset managers are violating federal banking laws through their coordinated ESG efforts.

Under the law, any entity that owns more than 25% of a bank is typically subject to regulation by the Federal Reserve. But large asset managers like BlackRock have sought, and received, exemptions from this rule by pledging that they do not actively control the banks in which they invest. The letter alleges that BlackRock, State Street, and Vanguard have broken these pledges by joining certain groups, like the UN Principles for Responsible Investing, through which they agree to use their voting power to impose ESG policies on portfolio companies, including banks.

Both letters ask the agencies to respond to the Committee no later than next week. Lawmakers seem eager to ensure agencies are following through on their federal mandates, rather than ESG and DEI goals.

The North Face Sees Backlash Over DEI Efforts

Outdoor clothing retailer The North Face saw backlash over the weekend over its promotion promising a 20% discount to customers who complete the company's "digital course in racial inclusion."

The hour-long training informs customers that "white privilege grants access to the outdoors" and instructs them on how to be better "allies." Each module concludes with a quiz, where customers that disagree with the program's ideological perspective are lectured that their views are incorrect. A customer who believes there is too much focus on diversity or that DEI "leads to preferential treatment" for minorities, for example, is chastened and unable to proceed with the training—or earn their coupon—until they change their response to align with progressive views.

The internet's reaction has not been kind. "LOL. They think it's still 2020," one X user wrote. Another called the initiative a "scam to capitalize on white guilt." Many called for a boycott, pledging not to buy The North Face apparel again.

How any of this activism helps The North Face's business is unclear. As recent, high-profile DEI-related controversies at companies like Google and Target have shown, companies that wade into controversy often pay the price. While The North Face may have been trying to score some cheap political points from its like-minded customers, the viral backlash is a reminder that virtue signaling isn't free.

NY Attorney General Sues Meatpacker JBS Over Sustainability Pledge

New York's attorney general has filed a lawsuit against meatpacker JBS over the company's climate commitments, claiming the company lied about its net zero plans to boost sales.

The lawsuit, filed Wednesday, alleges that JBS's pledge to reduce its emissions to net zero by 2040 isn't attainable because of the amount of methane produced by cows in beef production. The complaint alleges that the company's commitment therefore violates state laws that protect consumers from fraud.

The lawsuit is not the first a company has faced over its alleged failure to make good on its environmental commitments. A shareholder recently sued Delta Airlines for making overly aggressive claims of carbon neutrality, while Coca-Cola was sued for making allegedly misleading statements about its recycling and climate goals.

These environmentally-focused lawsuits follow a playbook first established by DEI activists: Push companies to make aspirational commitments to meeting DEI or ESG goals, and then sue when they fail to take measurable, concrete action. According to the Harvard Law Forum on Corporate Governance, nearly forty suits have been filed alleging that companies have failed to meet their stated racial and gender diversity goals.

For years, environmentally focused asset managers have claimed climate risk is investment risk. But the *real* risk appears to be undertaking the climate commitments themselves. Fall short, at least in the eyes of certain politicians, and a lawsuit is likely to follow. Fortunately, *that* risk, unlike climate change itself, is one that is easy to mitigate: Don't undertake the commitments. Don't make public pledges. Don't succumb to activists' pressure. Promise to focus on business alone, and climate activists will be forced to set their sights on someone else.

An Eye on Energy

Qatar's Potential Dominance of the LNG Market

Qatar began exporting liquefied natural gas (LNG) in 1997. By 2009, Japan, South Korea, India, and Europe were major customers. Today, Qatar holds between 11-13% of proven global gas reserves and exports around 70% of its LNG exports to Asia and 25% to Europe.

The energy transition and its impact on demand projections has recently made waves in the oil market. On January 30, Saudi Arabia instructed its state-owned oil company Aramco to cancel its plans to expand its maximum sustainable capacity of crude oil. The decision was viewed by many as a concern about medium-term oil demand.

But there's an important divergence in demand growth projections for LNG. Qatar believes LNG demand will grow for the next 30 years; the Energy Information Agency (EIA) recently projected U.S. LNG exports to increase 152% from 2022 to 2050. High electricity demand will mean high natural gas demand, absent a significant increase in use of nuclear energy.

The U.S. was the largest supplier of LNG to Europe in 2023. This was the third year in a row that the U.S. supplied more LNG to Europe than any other nation, accounting for 48% of Europe's total imports. The second was Qatar, who supplied 14%; Russia was third at 13%. Qatar's Northern Field is world's largest gas field, which it shares with Iran.

The Biden Administration's decision to pause the award of new licenses for LNG projects will embolden our competitors in the global LNG Market and reduce the U.S. LNG's global standing, harming its economy and national security.

Qatar will seek to fill the gap in the LNG market, including the development of an international exploration portfolio in Africa and South America. It may control 25% of the global market by 2030 and squeeze out rivals including the U.S. The President's pause will place our allies in need of LNG at the mercy of Russia, Qatar, and Iran.

Strive in the News

The Daily Caller Reports On Apple Meeting

Last week, the Daily Caller reported on Apple's annual shareholder meeting and, in particular, a shareholder resolution asking Apple to issue a human rights report.

The proposal sought a report to understand how Apple's stated commitments align with its operations in places like China and war zones alleged to be involved in human rights abuses. In particular, the proposal focuses on how Apple's actions impact its reputation, viability and profitability as a company.

The outlet asked Strive's Head of Corporate Governance, Justin Danhof, for his view on the proposal and why it did not receive majority support:

> At Strive, we know that China risk is investment risk. Apparently, that's a hazard that other shareholders are willing to ignore, perhaps because many of them have conflicts when it comes to China. Apple says all the right things as it relates to human rights. However, the proposal elucidates many instances where the company's actions in war zones and oppressive regimes don't match the rhetoric. Many companies are rightly called out for greenwashing. This proposal rightly calls out Apple for human rights-washing.

Read the full article here.

The Best of the Rest

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

- Fifteen state attorney generals write Blackrock over ESG policies; share continued concerns over BlackRock's participation in pro-stakeholder capitalism groups and the "various misrepresentations and omissions BlackRock has made over the past several years" about its ESG strategy.
- West Virginia threatens to blacklist six banks over fossil fuel boycotts; banks have thirty days to change banking policies or risk losing state business.
- BlackRock updates 2024 proxy voting policy; continues to press companies for climate and diversity disclosures.
- Climate Action 100+ issues statement in wake of recent departures; emphasizes the "remarkable progress" the organization has already had in "driving the business transition to a net zero emissions economy" and promises to continue to push companies to meet climate goals.
- U.S. to investigate Chinese smart cars as a potential security risk, citing concerns about Beijing obtaining sensitive data as U.S.-China relations remain fraught.

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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.