STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Mississippi initiates fraud proceedings against BlackRock over ESG; An Eye on Energy assesses a sudden oil shortage in 2024.

Mississippi Initiates Fraud Proceedings Against BlackRock

In a first-of-its-kind legal action, Mississippi has initiated fraud proceedings against BlackRock, alleging that it engaged in ESG activism even with client money invested in non-ESG funds.

The cease and desist order makes two allegations of fraud. The first is that BlackRock defrauded investors by disclaiming that its traditional, non-ESG funds employed any ESG investing strategy, while at the same time participating in groups like Net Zero Asset Managers that pledge to use all assets under management to push climate goals. The second claim is that BlackRock defrauded investors by claiming that ESG investing increased financial performance, despite the evidence to the contrary. The order also includes a notice of intent to impose an administrative penalty that could include a multi-million dollar fine.

"Investment companies will not push their political agenda on Mississippians, especially through fraudulent and deceptive means," Mississippi Secretary of State Michael Watson said in a press release accompanying the order. "All citizens should have the opportunity to make informed and educated decisions when investing their hard-earned money. If not, our office will hold these bad actors accountable."

The order comes three months after Tennessee sued BlackRock for "misleading" investors in violation of Tennessee's consumer protection laws.

BlackRock has already issued a statement denying liability, but has thirty days from the notice to file its formal response.

Investors File Record Number of Climate Resolutions

Investors have filed a record number of climate shareholder proposals this year, Reuters reported last week.

So far, 263 environmental resolutions have been proposed across North American companies, many of which continue to earn substantial support. A proposal at Jack in the Box, for example, asked the company to set short, medium and long term emissions reductions targets and report on progress towards these goals. The board of directors opposed the measure, explaining that it was not in the best interests of shareholders, particularly since California's and the SEC's regulations had not yet been finalized. The proposal nonetheless earned 57% shareholder support.

The record number of proposals is also influencing corporate decision making behind the scenes. According to Reuters, 56 companies have already capitulated to environmental demands to avoid putting the resolutions to a vote. New York City's pension funds, for example, withdrew resolutions at JP Morgan and Citigroup after the banks agreed to disclose their "green asset ratios," which pushes banks to finance green projects over fossil fuels.

While many of the proposals aren't garnering the same amount of attention they have in years past, their influence is still being felt across corporate America, both at the corporate ballot box and via private engagement.

British Report Shows DEI Costs Billions and Doesn't Work

A new report commissioned by the U.K. government concludes that DEI programs are costly initiatives that don't tend to help the companies that undertake them, the Wall Street Journal reports.

The report notes that U.S. companies spend $8 billion a year on DEI initiatives, and that the number of "head of diversity" job titles doubled from 2015 to 2020. Yet research shows that "there's little evidence DEI efforts such as mandatory antibias training and corporate policy overhauls have any positive effect on corporate culture."

The Journal notes that in the U.K., there are often significant downsides to such programs, as employees who are punished for failing to adhere to DEI orthodoxy have successfully sued their employers for violating their freedom of beliefs. Such potential liability is not limited to the U.K., however, as several U.S. states also protect employees from being fired based on political beliefs. In addition, recent developments in U.S. law, including the Supreme Court's 2023 decision in *Students for Fair Admissions v. Harvard*, may bolster employee claims to being harmed by their companies' DEI policies.

The Wall Street Journal claims the British report's implication for corporate America is clear: "Go ahead and cancel your DEI programs." We agree.

An Eye on Energy

A sudden oil shortage

On March 3, OPEC+ announced that its members will continue to reduce their production of crude oil by 2.2 million barrels per day (b/d) through the end of June 2024. The US Energy Information Agency increased its oil price forecast by about $4 to average about $88 a barrel. The EIA estimates that with global oil production at 101.3 million b/d and consumption at 102.2 million b/d, global oil inventories will need to be drawn down by 900,000 b/d by the end of this June.

Coupled with Ukrainian attacks against Russia's refinery infrastructure, stretched supply will add near-term upward pressure on oil prices. It also highlights the complex political situation between U.S. and Ukraine.

Russia had already committed to a million barrels per day of OPEC cuts and voluntary ones. The new OPEC+ agreement includes up to half that much in new Russian voluntary crude oil production cuts for a few months.

In the face of strong demand growth, a significant reduction in global oil stocks will place the U.S. in a difficult political position because oil prices will increase ahead of the presidential election and the Biden administration's sanctions may be used against it by both Ukraine and Russia.

The U.S. has asked Ukraine to stop the strikes on refineries to prevent a surge in oil prices. The drone attacks have reportedly impacted around 14% of Russia's refining capacity. This reduction in capacity should increase because U.S. sanctions against Russia have restricted the supply of spare parts to repair its refineries. Ukraine is expected to continue attacking refineries because they're easy high-value targets for drones. It also may believe that the attacks are political leverage in approving the delayed $60 billion military aid package in the House of Representatives.

Although attacking an enemy's energy assets is fair game and wise, it may backfire politically in the U.S. Russia may not increase its oil product or crude oil exports at the current discount, as its companies have experienced months of delay in payments because banks are scrutinizing the transactions to comply with U.S. sanctions.

Higher oil prices allow Russia to export its crude oil for refining and re-delivery as diesel and gasoline. It may be happy to increase the price of oil and perhaps inflation heading into the 2024 presidential elections.

Voting Spotlight: Adient Corporation

Each week during proxy voting season, Strive will highlight one interesting vote from a recent company's annual meeting.

Last month, Strive voted against automotive seating company Adient Corporation's CEO Jerome Dorlack. During the company's most recent earnings call, Dorlack stressed the company's commitment to "limiting our negative environmental impacts on the planet" and "focus[ing] on social and economic changes to create a better environment for everyone," despite the company's falling revenue.

In Strive's view, companies should focus on financial considerations, not shackle themselves with self-imposed ESG-driven constraints. Strive is particularly concerned about Dorlack's comments given research showing that companies often publicly embrace ESG to cover for poor financial performance. Because Strive is concerned that Dorlack's focus on anti-fiduciary programs is likely to hamper Adient's long-term financial return, Strive voted against his election to the board.

Straight from Strive

Strive Writes to Disney Shareholders To Support Board Shakeup

When a beloved American company like Disney abandons its mission to take sides in the culture wars, no one wins. Not customers. Not Disney. And certainly not shareholders.

That's why we've been vocal in urging Disney to set politics aside and focus on making magic. If its current leadership refuses to do so, then that leadership needs to change.

Strive wants to help make that happen. To that end, Strive CEO and CIO Matt Cole and Head of Corporate Governance Justin Danhof wrote to fellow Disney shareholders to urge them to support the election of two new board members nominated by Trian Fund Management who are committed to creating value for shareholders. With their leadership, Strive is confident that Disney can once again be the happiest place on Earth.

The full letter is available here.

The Best of the Rest

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

- China's President Xi Jinping meets with U.S. CEOs to encourage U.S. business; Qualcomm, Blackstone and FedEx among those in attendance.
- CalPERS board member makes veiled threat to drop asset managers who left Climate Action 100+; "I think we need a plan and that plan needs to include whether or not we keep these people in our portfolio" because "all of the work that we've done over the past 20 years is being pushed back on."
- BlackRock releases 2024 investor letter; refuses to say "ESG," while continuing push for "energy transition" financing.
- National Association of Manufacturers explains how ESG harms businesses: "Turning the proxy ballot into a debate club diverts time and resources away from shareholder value creation and forces companies to wade into controversial topics over which they have no control."
- UBS banker exasperated over climate commitments: "Banks are living and lending on planet earth, not planet NGFS" (the acronym for "Network for Greening the Financial System.")

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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.

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