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STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

May 21, 2024

This Week: Strive exposes DEI bias in Harvard's search for next president; Vanguard chooses pro-ESG BlackRock exec as next CEO; The Silicon Surge explains new U.S. tariffs on Chinese semiconductors.

Harvard Chooses DEI Over Rigor—Again

Harvard's leadership decisions continue to raise eyebrows as it prioritizes Diversity, Equity and Inclusion (DEI) over academic excellence.

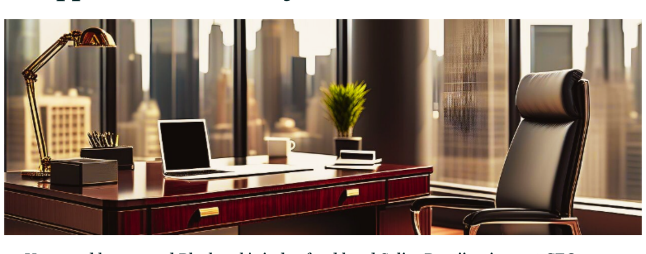
The latest controversy involves appointing DEI advocate Vivian Hunt to help lead the search for a new president following Claudine Gay's plagiarism scandal.

Hunt's McKinsey studies are often cited in DEI pushes throughout corporate America. They are also marred by questionable data manipulation.

Strive Head of Research Chris Nicholson, Ph.D. and CEO Matt Cole highlighted Hunt's flawed research and what the appointment could mean in academia and beyond.

Read the full story on X

Vanguard Names BlackRock Vet and ESG Supporter Salim Ramji As New CEO



Vanguard has named Blackrock's index fund head Salim Ramji as its next CEO, Bloomberg reports. While neither Vanguard nor Ramji appear to have publicly spoken about whether Ramji was hired based on his role in leading the explosive growth of BlackRock's ESG index funds, his record speaks for itself.

Ramji's Support of ESG: Ramji's most recent role at BlackRock was the head of its index fund business, which he held since 2019. The fastest growing segment? Its ESG funds, which went from around 20 in 2016 to more than 170 in 2021.

In His Own Words (emphasis ours):

- **"ESG risks, and particularly climate risks, are investment risks.** And I think that is a really important and fundamental concept."
- "The issue of climate is such a multifaceted and complicated problem [that governments, regulators and companies in both the public and private sectors all need to step up to address] ... A single ETF will not solve climate change. But we hope it can be part of a multifaceted solution that can **have an impact**."
- "If you think of the nature of the climate change problem public companies are trying to solve, . . . **[w]hat public companies need is patient investors**. Of any category in the world, the index investor is the most patient investor."

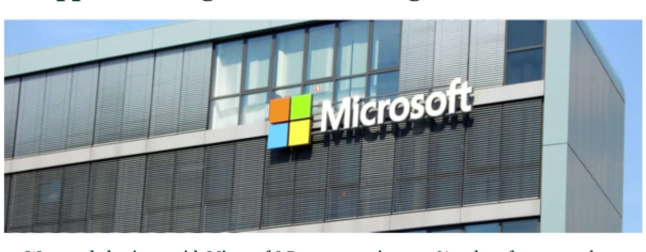
The Fixer: After BlackRock was called out for "push[ing] political agendas" in the pages of the Wall Street Journal, Ramji was tasked with issuing the company's denial—no doubt a tall task for a company that has pushed for emissions reductions and DEI quotas across corporate America. But a fixer may be just what Vanguard is looking for, given its own ESG woes.

Vanguard's Pro-ESG Stance: Ramji is slated to fill the role held by departing CEO, Tim Buckley, who made something of a name for himself by acknowledging that ESG does not outperform in financial terms.

Still, the firm held tight to many of its ESG commitments. Even following its much-heralded departure from Net Zero Asset Managers, for instance, Vanguard maintained its support of groups like the United Nations Principles for Responsible Investing and the Task Force on Climate Related Disclosures.

A Match Made In ESG Heaven? While Vanguard has been trying to chart a path of what might be called "strategic ambiguity," its choice to put Ramji at the helm may prove clarifying.

Microsoft Imposes New Energy Requirements on Suppliers to Fight Climate Change



Want to do business with Microsoft? Better commit to 100% carbon-free energy by 2030, the Wall Street Journal reported last week.

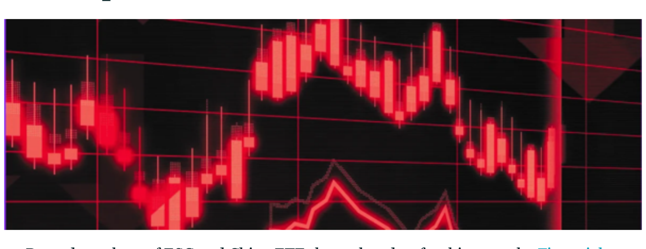
Time to Pay the Piper: In 2020, Microsoft pledged that it would be carbon negative by 2030, even with respect to "Scope 3 emissions," which are the emissions generated by Microsoft's suppliers and customers. Four years into the pledge, these third parties have not made sufficient progress towards Microsoft's climate goals. Now, Microsoft is forcing the issue.

A New Climate Sheriff In Town: Microsoft's Chief Sustainability Officer said the company will require "select scale, high-volume suppliers to use 100% carbon-free electricity by 2030" for goods and services delivered to Microsoft. The requirement will be rolled out in 2025 as part of the company's Supplier Code of Conduct.

Suppliers Don't Seem Thrilled: While Microsoft's sustainability chief could barely contain her excitement about the initiative, its suppliers seemed less stoked. Many of them already have climate goals—Samsung, for instance, has pledged to be net zero by 2050—but few, if any, planned to eliminate all fossil fuel usage in the next six years. None of Microsoft's suppliers returned the Wall Street Journal's request for comment.

Climate Disclosures or Climate Imperialism? Microsoft's supplier requirements lay bare the reality of how Scope 3 emissions mandates work. Proponents often claim they're merely seeking disclosures about how a company plans to reach net zero, and request that the disclosures include information about Scope 3 emissions. This language is intentional. It creates the impression that the goal is transparency, or providing shareholders with information about risk management. It's not. The goal is to get companies to set concrete targets and then foist them on every company in their value chain. Microsoft is starting to do it.

ESG and China Funds Close Amid Underperformance

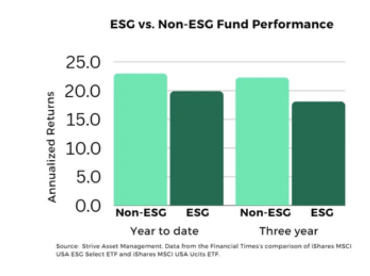


Record numbers of ESG and China ETFs have closed so far this year, the Financial Times reported last week.

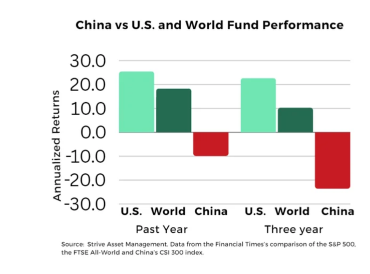
Record Outflows: Thirteen U.S.-listed China ETFs have closed down so far this year—more than in any full year period. Thirty global ESG funds have closed so far, also on track to smash through last year's record 72 fund closures.

Falling Popularity: The reason for the closures is declining investor interest. "Both global geopolitics and domestic pressures, particularly in the US, have been factors behind the declining popularity of both concepts." But so is financial performance.

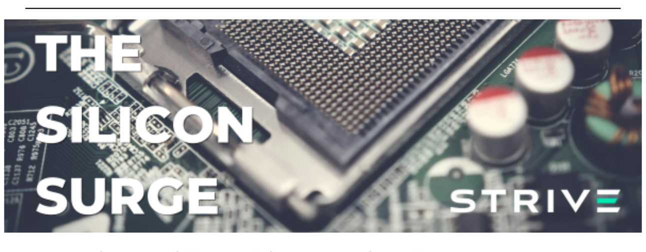
ESG Funds Underperform: As the FT explains, ESG funds have underperformed non-ESG funds both year to date and over the past three years.



China Funds Underperform Too: Index funds focused on China have performed even worse, owing to the steep decline in the Chinese economy.



The Market Will Decide: Ultimately, investors are the ones who decide where to place their cash. And right now, at least, the trend is clear: Investors are pulling their money from underperforming ESG and China funds.



U.S. Raises Tariffs on Chinese Semiconductors

President Biden announced Tuesday that the U.S. is increasing tariffs on Chinese imports ranging from solar cells to electric vehicles to protect American companies. Tariffs on Chinese semiconductors will double from 25% to 50% in 2025. The increased taxes will apply to approximately $18 billion of annual imports.

Although it's making little progress in producing the advanced chips used in cutting-edge technology like AI, China is working hard to take over the market for the mature chips used in everyday necessities like cell phones, washing machines, cars, TVs, and medical devices. It's building more chip factories than any other country. During the first quarter of 2024, China's output of legacy chips grew by 40%. The U.S. government expects China to account for nearly half of new capacity within five years.

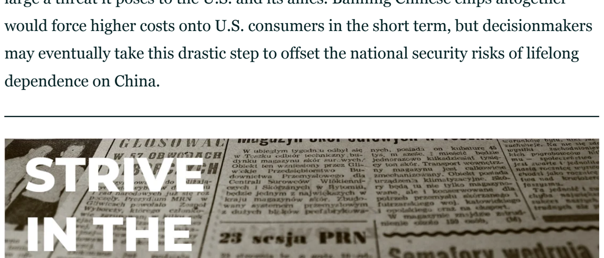
Is China's fast-paced investment into legacy chips a response to the U.S. blocking it from importing advanced chips? It's possible.

U.S. semiconductor companies are concerned about China's potential dominance in the mature chip market. Western legacy chipmakers like Global Foundries could be driven out of business if Beijing floods the market with subsidized chips.

If U.S. chip companies can't compete with their Chinese counterparts, the West could become too reliant on China for the semiconductors needed in modern technology. Consumers got a taste of this during the COVID-19 Pandemic when they couldn't purchase the vehicles they wanted due to overseas chip production slowdowns and supply chain disruptions.

Geopolitical risks also loom. Military equipment like tanks and planes often rely on legacy chips. If China gains control over this market, it can easily remove the U.S. from its customer list, as we did to it for advanced chips.

Policymakers are continuing to monitor this developing trend to determine how large a threat it poses to the U.S. and its allies. Banning Chinese chips altogether would force higher costs onto U.S. consumers in the short term, but decisionmakers may eventually take this drastic step to offset the national security risks of lifelong dependence on China.



Strive General Counsel Moderates Panel on DEI Practices

On Friday, Strive General Counsel Alexandra Gaiser moderated a panel on Diversity, Equity and Inclusion (DEI) practices after the Supreme Court's *Students for Fair Admissions v. Harvard* case at a Federalist Society conference in Dallas, Texas. Panel members included former EEOC chair Janet Dhillon, Tennessee Attorney General Jonathan Skrmetti, American Civil Rights Project Executive Director Dan Morenoff, and appellate attorney Allyson Ho. The panel discussed the implications of the Court's ruling on workplace and employment policies and how corporate general counsels can navigate the new legal landscape.

JPMORGAN CHASE & CO.

Voting Spotlight: JP Morgan

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

Last week, Strive voted against a JP Morgan proposal asking the company to issue a human rights report focusing on Indigenous people. The proponents criticized JP Morgan for abetting what they call "acts of cultural genocide," such as providing banking services to oil and gas companies that run pipelines through tribal land.

JP Morgan vigorously disputed the claims, explaining "the proponent inaccurately describes the Firm's financing activities" by relying on "subjective determinations by sources that are not necessarily aligned with or knowledgeable of our shareholders' long-term financial interests." On that front, JP Morgan advised that the requested report "would incur unnecessary expense" and recommended shareholders vote against it.

Strive agreed and voted against the proposal, as there was no credible evidence that an Indigenous people's report would serve the best long-term financial interests of JP Morgan's shareholders.

The Best of the Rest

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

- House Republicans seek full accounting of taxpayer money spent on DEI from the White House; alleges the Biden administration has tried to "embed DEI" across the government.
- Proxy advisors have pro-ESG bias, or, in academic jargon: "incentives of proxy advisory firms are not aligned with those of investors and can encourage these firms to promote controversy or cater to ESG investors to increase own market share at the expense of beneficial owners," Stanford researchers explain.
- Fifth Circuit skeptical of NASDAQ diversity rule; judges asked if the SEC could, in the name of promoting diversity, force board members to disclose if they were Swifties, or pro-abortion, or "Team Drake"; or if, in the name of integrity, the SEC could force board members to disclose marital infidelity.
- Congressional Democrats pushing SEC to finalize greenwashing rule; proposed rule has been pending for two years; read Strive's comment letter here.
- CalPERS commits $25 billion to green private markets; pension fund is looking to deploy capital in private equity, real estate and infrastructure investments.
- Bloomberg Opinion on stakeholder capitalism: "The fashion for regulation, stakeholder capitalism and ESG are symptoms of a bigger problem: society's growing willingness to force businesses to deliver an ever-lengthening wish list of social benefits that governments cannot deliver themselves either because they don't have the money or the will."

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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.
