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The Fiduciary Focus

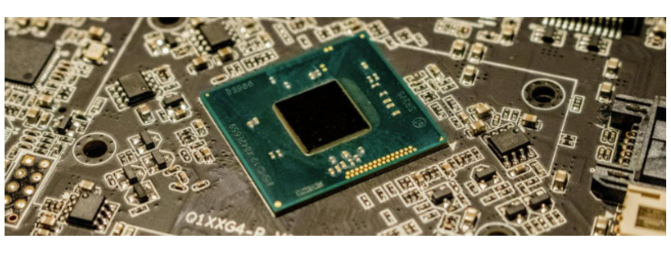
STRIVE

Investment News From a Pro-Shareholder Perspective

June 25, 2024

This Week: Senate seeks to cut DEI from CHIPS Act; An Eye on Energy talks about Congress's new deregulation of nuclear energy; Bloomberg reports on Strive's analysis of DEI in executive pay.

Senate Seeks To Cut DEI From CHIPS Act



In March, Strive CEO Matt Cole and Head of Research Chris Nicholson penned an article for the Hill exposing how DEI killed the CHIPS Act. Now, Congress is trying to do something about it, the Daily Wire reports.

The Problem: The CHIPS Act is bogged down by over a dozen provisions requiring U.S. semiconductor companies to explain their plans to hire more women, provide on-site childcare, increase diversity, fight for environmental justice, and more—all of which make it harder for U.S. companies to compete with their foreign counterparts.

A Potential Solution: Last week, a pair of Republican senators introduced a bill that would repeal these provisions, thereby freeing up U.S. semiconductor companies to build new fabs, research new chips and turbocharge production.

The Co-Sponsors' Rationale:

- "Our country simply cannot afford to allow China to continue to out-compete us in technology and innovation over the next generation. The CHIPS Act has potential, but it needs reforms to become effective."—Sen. Tommy Tuberville (R-AL).
- "[This] legislation ... will prevent President Biden from using tens of billions of dollars of taxpayer money to strong-arm companies into adopting the misguided tenets of his dangerous, divisive DEI agenda."—Sen. Mike Lee (R-UT).

AI Driving the "Next Industrial Revolution": There's no denying that AI is hungry for chips, and the U.S. semiconductor industry is working hard to meet that demand. As the Wall Street Journal reported last month, we're witnessing "the next industrial revolution," with stocks in the semiconductor, utilities and energy sectors outpacing the broader market. If Congress takes this chance to unburden U.S. chipmakers currently weighed down by DEI policies, there's no limit to the bounty this next industrial revolution may bring.

Exxon Suit Wraps Up After Climate Activists Capitulate

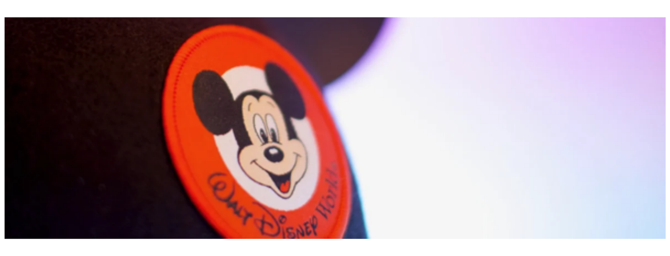
Exxon's lawsuit against climate activist Arjuna Capital has concluded following Arjuna's "unconditional and irrevocable" promise not to file another climate-related shareholder proposal at Exxon, CNBC reported last week.

The Lawsuit: As we've previously reported, Exxon sued Arjuna Capital after it filed a shareholder proposal seeking to shut the company's oil and gas business down to fight climate change.

A Victory for Exxon: Following the court's ruling dismissing the case, Exxon wrote that its lawsuit "put a spotlight on the abuse of the shareholder-access system. The court has made absolutely clear that Arjuna cannot continue abusing the process. Shareholder democracy is only as strong as the rules that govern it, which must be fairly and consistently applied."

A Victory For Shareholders: While ESG proponents like Vanguard and CalPERS questioned Exxon's lawsuit, Strive supported management's decision to seek judicial clarification on whether stakeholder capitalism advocates are permitted to use the shareholder-voting process to try to wind down a company's primary business line to serve outside goals. Exxon's lawsuit may not have resulted in a final judgment against Arjuna, but it sends a strong message that coopting the shareholder voting process to make value-destroying proposals will not go unchecked.

Disney VP Says Company Racially Discriminates



In a leaked video released last week, a Disney Senior Vice President claimed that Disney discriminates against non-minorities in service of diversity goals, the Daily Wire reports.

The Scoop: In the now-viral video, Disney SVP Michael Giordano says he's heard things like "[t]here's no way we're hiring a white male for this role" while working at Disney. "I have friends in HR and I have friends in other divisions," he explains to the undercover journalist from O'Keefe Media Group. "And they're like, 'Look, nobody else is going to tell you this, Mike, but they're not considering any white males for the job.'"

A History of Costly DEI Missteps: As Strive has outlined in its letter to Disney in 2022 and letter to fellow shareholders earlier this year, Disney has courted many DEI controversies in recent years, several of which have led to legal action, including:

- Its legal feud with Governor Ron DeSantis over Florida's Parental Rights in Education Bill;
- A lawsuit brought by actress Gina Carano after she was fired for her conservative viewpoints;
- A civil rights complaint alleging racially discriminatory conduct similar to that described in Giordano's video; and
- A shareholder demand letter alleging that Disney's share price has suffered as a direct result of Disney's pursuit of DEI in breach of its fiduciary duties.

Course Correction: If one thing is clear, it's that Disney is in dire need of a course correction. Mr. Giordano's footage didn't make Disney look good, but it may just be the eye-opener the company needs to put identity politics aside and get back to creating magic for shareholders, employees and customers alike.

Congress deregulates nuclear energy

Regulators are scrambling to prepare the energy sector for a massive uptick in electricity demand due to AI.

On June 18th, Congress passed the Accelerating Deployment of Versatile, Advanced Nuclear Clean Energy (ADVANCE) Act. This legislation directs the Nuclear Regulatory Commission to examine and speed up its permitting process for new nuclear technologies. The legislation is now on President Biden's desk.

In the 1950s, the U.S. led the development of nuclear energy by building 110 reactors, providing more than one-fifth of electricity for its citizens. However, as growth in electricity demand slowed in the 70s, we stopped building more reactors due to their high costs and we fell behind.

Times are now changing, and nuclear energy is not just coming back; it's here to stay.

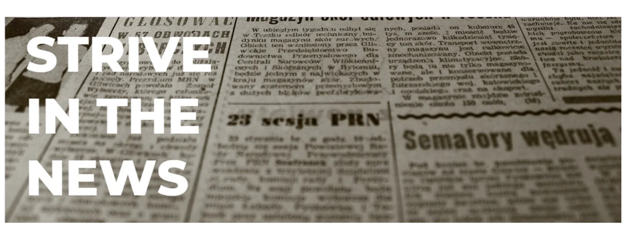
AI's hunger for knowledge is increasing the world's appetite for electricity. Estimates claim that by 2028, the minimum amount of electric power to accommodate data centers equals roughly eight New York Cities. Even though there's a push for using renewable energy to generate electricity, the demand is too high to solely rely on it, so regulators are pinning their hopes on nuclear energy.

The global energy industry is a jigsaw puzzle. Numerous pieces compose a complex and diverse system of equipment, infrastructure, technologies, regulatory bodies, and private entities. Something that happens in one area of the puzzle has the potential to impact another area, so securing the supply chain in a power-hungry world will be difficult.

Due to this tremendous demand, utility companies must rethink their grid operations to keep up with technological advancements and electrification planning.

Involving regulators in the innovation aspect of the process—in a manner that streamlines and does not burden the pace—would accelerate the commercialization of new advanced electric generation and grid technology. In the past, electric utility companies focused on mature technologies, and regulatory agencies like the NRC cautioned companies from assuming too much risk.

Failure to address the increasing electricity demand driven by AI technologies could lead to severe blackouts. Investments in upstream natural gas and advanced nuclear technologies are crucial, but they require government support and regulatory reforms like the new ADVANCE Act to be effective.



Bloomberg Covers Strive's Analysis of DEI-Linked Executive Pay

Last week, Bloomberg covered Strive's efforts to persuade corporate America to drop DEI goals from executive pay packages and the progress that's been made so far. As the piece explains, Strive's analysis of over 1,500 companies revealed that more than 60 companies have made changes that reduce or eliminate DEI from executive compensation in the past year.

"Compensation should incentivize executives to drive long-term shareholder value, not to focus on irrelevant non-pecuniary factors," Strive Head of Corporate Governance Justin Danhof told the outlet. "And while ESG is often a distraction, companies that continue to tie executive compensation to DEI factors may also be putting themselves in legal jeopardy."

Read the full article here.

Google

Voting Spotlight: Alphabet

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

Earlier this month, Strive voted against a proposal asking Google's parent company Alphabet to restrict pro-life search results for individuals making abortion-related search inquiries. To support the proposal, the proponent argues that making it easier for pregnant women to obtain abortions will help improve "women's employment and educational attainment"—i.e., that Google should be in the business of facilitating abortions, because women are more likely to hold down jobs and get college degrees if they are unburdened by babies and children.

The company opposed the proposal, explaining that the company's current policy "allow[s] ads that promote different services and perspectives" so long as such ads do not make "health claims that could mislead our users."

Because the proponents were clearly motivated by social concerns, and because they provided no persuasive financial analysis that its preferred policy would generate greater financial returns for shareholders than the one that Google currently has in place, Strive voted against the proposal.

The Best of the Rest

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

- Climate Action 100+ going strong; reports that 45 members have recently reaffirmed commitments, while the handful that have recently left "have all stated that they remain committed to climate action."
- Pepsi releases ESG report: gives updates on water use goals, plastics reduction efforts, .
- 75% of Americans disagree with financial incentives for hitting DEI goals, new survey finds.
- U.S. officials urge EU to delay deforestation rules; would require importers to certify products aren't linked to deforestation in supply chain.
- Fossil fuel divestment bill runs out of gas again in California; CalPERS nonetheless "remains committed to its sustainable investment plan, which will reduce the carbon intensity in our portfolio, while investing $100 billion in climate solutions."
- The Political Forum Institute corrects common misconceptions about the pro-fiduciary movement: "The activists in question ... are not trying to stop the 'woke-ification' of capital markets. They're trying to stop the politicization of capital markets. It just so happens ... that those trying to politicize markets are almost entirely on the fringe political Left."
- If a company says it's ethical, investors should be skeptical; new study shows companies that use "trust" terminology tend to underperform.

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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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