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STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

July 30, 2024

This Week: Strive announces close of $30M Series B financing; new study shows many companies tying pay to climate goals; The Silicon Surge discusses the chip industry's struggle to balance water supply and solar power.

Strive Announces Close of $30M Series B Financing

Last week, Strive announced the close of its $30 million Series B financing, as well as the launch of its wealth management business. Per Strive CEO Matt Cole:

> The success of Strive's asset management business has been extraordinary, growing to over $1.6 billion in assets under management less than two years after the launch of our first ETF. Off the back of this momentum, Strive will be launching a direct wealth management offering focused exclusively on maximizing value for our clients. Many Americans are hungry for an authentic and unapologetic embrace of capitalism, meritocracy, and innovation, and that's what we strive to deliver.

Read the full announcement here.

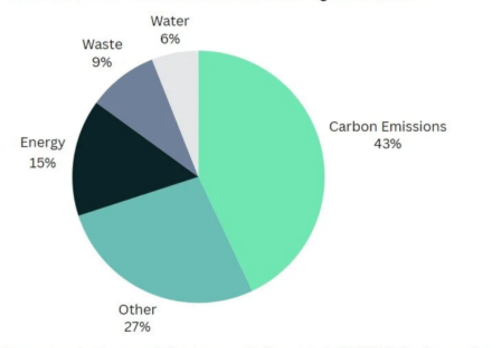
Many Companies Tying Pay to Climate Goals, Study Shows

Many companies are still tying executive pay to climate goals, a new analysis shows.

The Findings: Nearly a third of S&P500 companies tie executive pay to environmental goals, the study found. Energy and utility companies were the most likely to use such metrics, with 92% and 81% of companies within those industries tying executive pay to green targets.

What Goals? The most common goal was to reduce the company's carbon footprint, but energy usage, water, and waste goals were also common.

Prevalence of Environmental Pay Metrics



Source: Strive Asset Management; data source https://corpgov.law.harvard.edu/2024/07/23/environmental-performance-metrics-in-incentive-plans-incentive-trends-and-key-design-considerations/

Strive's Take: Executive compensation was Strive's top engagement topic and proxy vote this past year. And we've made great progress in persuading companies to tie compensation to financial metrics alone. But as the new study shows, there is still substantial work left to be done.

Will Harley-Davidson Hit the Brakes on DEI?

Last week, following backlash at John Deere and Tractor Supply, we asked which company would be next to face criticism. Now we have our answer: Harley-Davidson, Daily Mail reports.

Revving Up Controversy: Harley-Davidson brands itself a symbol of rebellion. Yet when it comes to DEI, Harley-Davidson has toed the line. Those efforts are now backfiring, per the latest campaign from filmmaker and influencer Robby Starbuck.

Strategy Shift: Over the past few years, Harley-Davidson has gone all in on ESG. Its current CEO has:

- sponsored LGBTQ+ allyship training,
- set hiring targets for "underrepresented talent,"
- adopted costly carbon accounting, and
- promised to "[d]rive shared prosperity for all stakeholders" through climate and diversity initiatives.

Elon Weighs In: Even Elon Musk seemed surprised by brand's DEI practices, responding "Harley Davidson?" to a post describing how Harley-Davidson hosted a "white male only training on diversity."

Time for a U-Turn: Company rebrands can be a good thing—so long as they're geared towards value creation. Harley-Davidson's wasn't. Moving forward, Harley-Davidson should focus on helping its customers ride the open road, rather than the latest political trends.

Vanguard Warns of Ownership Limits

Vanguard has warned investors of potential ownership limits, which could cap how much of any company Vanguard could own, Ignites reported Thursday.

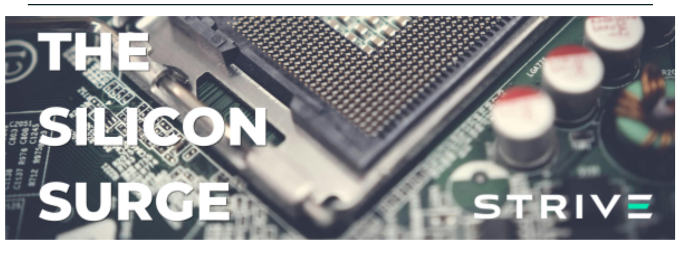
Passive No More: Historically, the Big Three have been exempt from most regulatory limits on the ground that their index funds are passive owners. But given the Big Three's penchant for ESG activism, that assumption no longer seems justified.

Regulators Swarming: While no specific cap is imminent, several federal agencies have cited concerns over the enormous power BlackRock, State Street, and Vanguard wield by virtue of the fact that they hold the largest stake—and therefore voting bloc—in nearly every S&P500 company. These agencies include:

- The Federal Energy Regulatory Commission, which solicited public input on whether to revoke the Big Three's blanket exemption,
- The Federal Trade Commission, which is mulling a rule requiring antitrust review before ownership could exceed certain thresholders, and
- The FDIC, which considered rescinding waivers under the banking laws.

No Free Pass: "The days of index funds getting a regulatory 'free pass' are over," Vanguard wrote. "While no agency has ruled against Vanguard or restricted its purchasing abilities, this risk can't be ignored."

Why It Matters: Vanguard has nearly $10 trillion in assets under management, over 80% of which is held in passively managed index funds. If Vanguard is limited in how much stock of any given company its funds can buy, it will be harder for its funds to track benchmarks. If the cap is low enough, it could jeopardize Vanguard's entire business model. But even if it doesn't, any additional regulation is likely to increase costs, which may ultimately be foisted upon Vanguard's clients.



Water Supply Threatens Fabs

The chipmaking industry is parched.

Semiconductor fabs have unique water needs: they rely on ultrapure water, thousands of times cleaner than drinking water, to cool their machinery and clean the silicon wafers chips are made from. This ultrapure water is crucial to avoid contaminating the chips, but ongoing droughts across the semiconductor industry threaten its supply.

An average chip manufacturing facility uses up to 10 million gallons of water daily, equivalent to the daily water usage of 33,000 U.S. households. This will likely increase due to AI and other advanced chipmaking.

Roughly 40% of all existing semiconductor manufacturing plants are in areas that will undergo high water stress by 2030. And in some regions, it's already happening. Taiwan, the capital of advanced chip manufacturing, has faced severe droughts and water scarcity since 2021. Arizona is in the same boat, yet somehow still attracted Intel and TSMC to build fabs in its deserts. Why?

The answer is the federal government's push for clean energy and away from oil and gas. Although the CHIPS Act offers $39 billion in subsidies for chipmaking, the Commerce department has said that new fabs must use 100% renewable energy to be strong candidates for grants. Chipmakers have no choice but to move to dry regions to get the sun's exposure; accepting government money always comes with a catch.

Companies like Intel and TSMC have adopted on-site recycling and wastewater treatments in these vulnerable places to tackle high water demand. But recycling water is less sustainable than you might think—since these practices require extensive energy, the likelihood of intermittent solar energy meeting this constant demand is low.

The semiconductor sector will continue to benefit from the secular tailwind of AI. Still, at some point, these companies must choose between controlling their water supply and minding their energy consumption, unless they're willing to stop receiving cash from Big Government.

Wall Street Journal Spotlights Strive's Pro-Merit Approach

On Thursday, the *Wall Street Journal* wrote about the new three-letter acronym poised to replace DEI—MEI, or "Merit, Excellence and Intelligence." In describing this alternative approach, the article cites Strive's hiring practices, which "put skill and experience at the fore of candidate assessments." As CEO Matt Cole explained, "I really don't believe that diversity on the basis of skin color or gender is a goal," he says. "It's a likely—but not guaranteed—byproduct of a meritocratic process."

Read the full article here.

The Best of the Rest

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

- ESG is coming to the Olympics; banning short-haul flights where trains are available may prove unpopular; locally sourcing 80% of athlete's food in Paris probably less so.
- UN criticizes use of carbon credits to offset corporate emissions; draft document from UN task force on global carbon markets says companies must reduce their own emissions.
- New survey shows 63% of people familiar with ESG oppose debanking; i.e., they would "support a law to stop financial institutions like banks and insurance companies from using non-financial ESG scores when evaluating individuals and businesses applying for products or services, such as a loan."
- Many early EV owners plan to switch back to gas; nearly 30% of EV owners globally say they plan to go back to internal combustion engines, new study finds.
- "BlackRock must face up to its failures on ESG," former chief sustainability officers says.

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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.

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