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The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

November 5, 2024

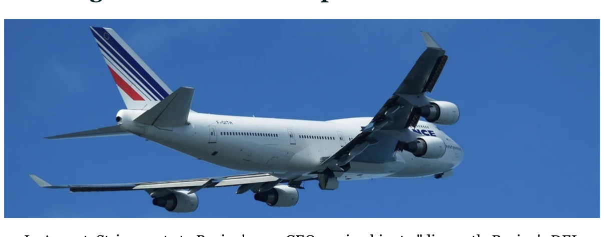
This Week: Strive heads to Texas; Boeing dismantles DEI department; The Silicon Surge looks at TSMC's bid to transform U.S. manufacturing.

Strive Heads To Texas To Offer True Financial Freedom

Everything's bigger in Texas. That's why we're headed to the Lone Star State to launch our wealth management business, focusing on maximizing financial value for Americans via a thoughtful integration of bitcoin. True Financial Freedom, in the land of the free.

You can read about our big move, and Governor Abbott's warm Texas welcome, in our press release or in Dallas Innovates here.

Boeing Dismantles DEI Department



In August, Strive wrote to Boeing's new CEO, urging him to "dismantle Boeing's DEI department and eliminate all related positions." Last week, Boeing agreed to do just that.

The Change: Per Bloomberg, the former head of Boeing's DEI department has departed the company, and remaining employees will be re-assigned.

Strive's Letter: In our letter, we shared our view that "Boeing's focus on ESG and DEI goals over safety played a key role in its current crisis, one that Boeing must now correct." We detailed how "DEI has dominated Boeing's culture in recent years," spurring backlash from employees, endangering passengers, and hurting its share price. We therefore asked Boeing's new CEO to "reject social goals and focus on financial value alone." Dismantling the DEI department is a good first step.

Remaining Initiatives In Doubt: As Bloomberg notes, the departures throw Boeing's remaining DEI initiatives into question. Boeing had committed, for example, to increasing black employees by 20% by 2025. That goal that remains in the 2024 sustainability report on the company's website, but in a recent court filing, the company disavowed setting any race-based quotas.

More DEI Woes: Despite the change, Boeing hasn't been able to shake all its DEI woes. Last week, the Department of Justice insisted on using DEI to select Boeing's corporate monitor as part of settlement in fraud case that alleged Boeing misled federal regulators about airplane safety.

Employee Diversity Does Not Improve Returns

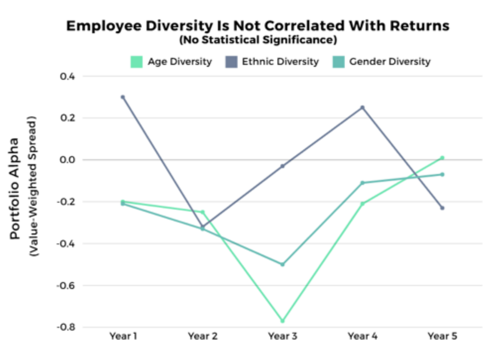
Employee diversity does not improve financial returns, a new study led by Professor Bart Frinjs of Open University of the Netherlands finds.

The Context: While DEI proponents often claim that diversity helps profits, the research is mixed. And it often focuses on other factors—like whether diversity improves creativity or innovation—that the researchers believe would help performance, rather than measure diversity's effect on financial performance itself.

The Study:

- The researchers looked at over 2,200 U.S. companies from 2000 through 2021, and gathered employee demographic information based on company bios, LinkedIn and other sources.
- They then conducted a battery of statistical analyses to see if age, ethnic, or gender diversity correlated with a company's subsequent stock performance in the short term (over the next four quarters) or long term (over the next five years).

There were no statistically significant correlations.



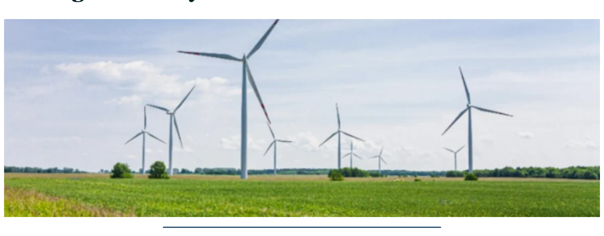
As the chart above shows, overweighting a portfolio with diverse companies did not generate alpha. Portfolios that focused on ethnically-diverse companies, for example, slightly outperformed when looking at one- and four-year time horizons, but slightly underperformed over two-, three- and five-year time periods. But, again, none of the results were statistically significant, meaning these slight variations were likely random noise.

Other Findings:

- Change In Diversity: The researchers hypothesized that diverse companies might already enjoy high share prices (*i.e.*, their diversity premium might already be baked in), and so looked at whether a firm's *change* in diversity affected its share price. It didn't.
- Other Financial Metrics: The researchers also looked at whether employee diversity correlated with improved operational performance, including sales, gross profits, or net income. Again, there was no correlation.

Why It Matters: For years, DEI proponents have tried to make a business case for race-based hiring policies. And many companies haven taken note. Now that the business case is falling apart, hopefully companies will commit to hiring based on merit alone.

Morgan Stanley Softens Climate Commitments



Morgan Stanley has softened its climate commitments, Reuters reported last week.

The Change:

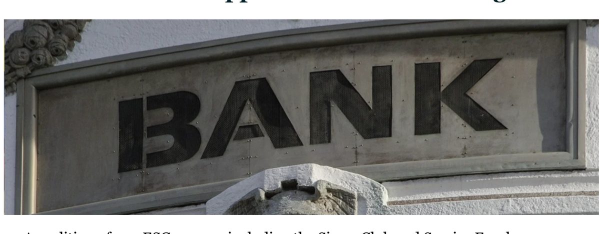
- In September 2020, Morgan Stanley became the first major U.S bank to commit to net-zero emissions in its lending activities—meaning that, by 2050, it would drop any customer that was not itself carbon neutral in order to cap global warming at 1.5 degrees Celsius.
- Last week, Morgan Stanley revised this target, saying it was now aiming to cap global warming to 1.5 to 1.7 degrees Celsius, thus giving itself (and its customers) a little more leeway.
- Morgan Stanley also warned that "our clients, and our firm, may not meet net-zero-aligned targets" at all, clarifying that its ambitions depended on technological and financial feasibility, as well as government support.

A Different Strategy: Morgan Stanley's approach contrasts sharply with that of ING Bank, which has recently tightened its lending policies. In September, ING CEO Steven van Rijswijk told Reuters that the bank would begin dropping noncompliant customers, warning, "If you're a pure play upstream oil and gas company, developing fields and extracting oil and gas, and if you continue to open new fields, we will stop financing you altogether."

A Different Risk: When Morgan Stanley announced its pledge in 2020, it claimed it was trying to mitigate the "potential risks" of climate change. Today, however, the pledge itself has become a risk. Over the past two years, Morgan Stanley has been subjected to multiple investigations over its climate lending policies, including probes alleging that the bank illegally discriminates against agricultural and fossil fuel clients.

Effective Mitigation: Morgan Stanley's softening may already be paying off. On Friday, consumer protection group Consumers First sent cease and desist letters to five banks, including Bank of America and JPMorgan Chase, warning them that their "unattainable climate commitments could expose the company, their executives, and their directors to massive legal liability." Morgan Stanley, notably, was not among the recipients.

ESG Advocates Support New FDIC Banking Rule



A coalition of pro-ESG groups, including the Sierra Club and Service Employees International Union, have submitted a letter supporting and seeking to expand a new FDIC rule that would increase scrutiny of large asset managers, like BlackRock, Vanguard, and State Street, that hold large stakes in U.S. banks.

The Rule:

- Under existing laws, the FDIC closely oversees entities that own large stakes in U.S. banks. It does this to ensure the stability of our banking system. It might, for example, stop an activist from buying up bank stock to try to turn a quick profit by taking risks that could cause a collapse.
- Historically, large asset managers that hold bank stock in index funds have been exempt from the rule under an exception for "passive" investors.
- In August, the FDIC proposed eliminating the exemption, citing concerns that the Big Three's concentrated ownership means they wield "excessive influence or control over the banking industry as a whole."

BlackRock's Denial: BlackRock denied that it engages in any ESG activism in the banking sector. "[O]ur role [is] as a passive investor," BlackRock wrote in its letter, using the term "passive" another 48 times. "BlackRock cannot—and does not try to—direct a company's strategy or its implementation."

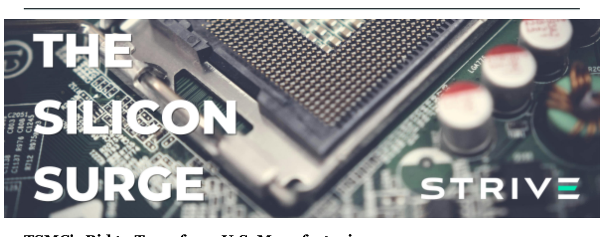
A Stunning Silence: Notably, its letter fails to mention that BlackRock has pushed:

- DEI initiatives, including BlackRock's vote for Bank of America to conduct a racial equity audit to "dismantle systemic racism." What did BoA do wrong? It issued municipal bonds to cities that then used some of the proceeds to settle lawsuits related to police misconduct and donated to police foundations. BlackRock voted for the proposal, explaining that it was "supportive of the company's efforts to date on this material social issue," but voted for the audit to "accelerate the company's progress."
- Climate initiatives, including pushing net zero goals on nearly every large American bank. Since 2020, BlackRock has touted over 600 different climate engagements with financial institutions, including Wells Fargo, JPMorgan Chase, Citibank, and BoA. In BlackRock's own words, it used these engagements to encourage the banks to "unwind[] certain financing activities" (e.g., fossil fuel financing) and "drive progress in the global effort to shift onto a pathway to net zero GHG emission."

The Pro-ESG Coalition Weighs In: The pro-ESG coalition supported the rule, acknowledging that the Big Three are clearly not passive.

In their view, however, the problem is that BlackRock and others haven't gone *far enough* in pushing ESG on banks. They therefore asked the FDIC to require large asset managers to hand over their votes to "independent" proxy advisors, who would cast the votes in the "interests of the public" by supporting even more environmental and social proposals.

A True Public Good: The FDIC's mission is to maintain stability and public confidence in the nation's banking system. That's not going to happen unless banks —and the asset managers that control their shares—stay out of politics and focus on banking alone. This shouldn't be controversial: A stable and reliable banking system, after all, is also a public good.



TSMC's Bid to Transform U.S. Manufacturing

Late last month, TSMC, the world's largest chipmaker, announced a stunning accomplishment: initial test runs show that its Arizona fabrication plant can achieve 4% higher production yields than its facilities in Taiwan. While full scale production won't start until 2025, the successful test run demonstrates that U.S.-based manufacturing is not just feasible, but promising.

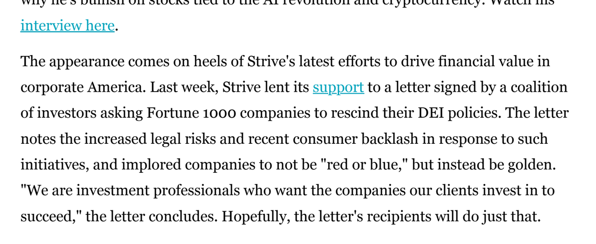
TSMC's Arizona facility represents a cornerstone of U.S. efforts to strengthen domestic semiconductor manufacturing. As a critical supplier to tech giants like Nvidia and Apple, TSMC's success in Arizona could significantly influence the future of American chip production.

The geopolitical implications are striking. With approximately 90% of advanced semiconductors currently manufactured in Taiwan, the global tech industry remains vulnerable to potential disruptions from the Chinese military. TSMC's U.S. expansion helps mitigate this risk, providing a strategic manufacturing alternative.

But the transition to the U.S. is challenging. Operating costs in the U.S. are 10% to 20% higher than in other countries, necessitating higher yields to offset these expenses. The chip industry must also grapple with regulatory complexities, including environmental and DEI mandates, supply chain disruptions, and a shortage of skilled labor. As Intel's recent struggles show, Chips Act promises are no panacea for the obstacles facing the industry.

Will companies face the challenges of manufacturing on U.S. soil in exchange for reduced China risk? The answer may lie in how effectively TSMC and other chip manufacturers can streamline their operations while maintaining high standards for advanced chip production.

The success of TSMC's Arizona plant could serve as a model for further onshoring, encouraging other companies like Samsung to follow its lead. This would strengthen U.S. technological competitiveness. TMSC's test run was more than just a technical trial in the Arizona desert; it was the opening gambit in the high-stakes chess match that chips manufacturing has become, and the world's eyes were watching.



Strive CEO Appears on Mornings with Maria; Strive Supports Letter to Fortune 1000 to Drop DEI

Yesterday, Strive CEO Matt Cole appeared on *Mornings with Maria*, where he discussed his views on the U.S. election and its likely impact on the market, as well why he's bullish on stocks tied to the AI revolution and cryptocurrency. Watch his interview here.

The appearance comes on heels of Strive's latest efforts to drive financial value in corporate America. Last week, Strive lent its support to a letter signed by a coalition of investors asking Fortune 1000 companies to rescind their DEI policies. The letter notes the increased legal risks and recent consumer backlash in response to such initiatives, and implored companies to not be "red or blue," but instead be golden. "We are investment professionals who want the companies our clients invest in to succeed," the letter concludes. Hopefully, the letter's recipients will do just that.

The Best of the Rest

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

- House Speaker Mike Johnson suggests Chips Act reforms to "eliminate its costly regulations and Green New Deal requirements."
- Seventeen state treasurers urge Fortune 1000 companies to drop DEI, explaining they "pose significant legal risk to corporations."
- Investors value Delaware's partisan balance, new study shows; state requires roughly equal numbers of Democrat and Republican judges in its court system, which has a positive effect on share prices.
- 74% of S&P500 companies tie executive pay to ESG; 54% tie pay to DEI goals and 42% tie pay to environmental goals.
- Most Americans support fossil fuels; two-thirds support increasing "domestic fossil fuel production like oil and gas."
- Forbes looks at how U.S. companies are managing China risk as "the stakes and obstacles to operating in the PRC have recently grown more acute."
- Less than half of CFOs are confident that their company will hit climate target, new EY survey shows; "While it's relatively easy for an organization to put in place an ambitious sustainability target, once finance leaders start drilling into the data — and they see how much needs to be done to bridge to a target — their conservative tendency perhaps starts to kick in, with a healthy skepticism," the accounting firm explains.
- Eighteen state treasurers urge complete divestment from China; statement notes that trustees have a fiduciary duty to divest from "imprudent investments" and claims that "[t]he time has come to divest from China."

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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.