STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Bitcoin skyrockets on Trump's reelection; bees thwart Meta's plans for nuclear-powered AI; study shows mutual funds game ratings system.

Bitcoin Skyrockets on Trump's Reelection

Bitcoin surged 8% to an all-time high of over $75,000 in early trading following last week's election results, before climbing to nearly $90,000 this morning.

A Prescient Moment: Last week, Strive CEO Matt Cole appeared on *Mornings with Maria*, where he shared his view that the market was pricing in a Trump victory, and that it was good news for crypto. A week later, his predictions have aged well.

Current Regulatory Headwinds: Since inception, the crypto industry has faced significant legal and regulatory hurdles, including a Securities and Exchange Commission that has cracked down on cryptocurrency and the exchanges it trades on.

Relief in Sight: President Trump has pledged to change that, making cryptocurrency a central plank in his reelection campaign. In recent months, President Trump has:

- pledged to make America "the crypto capital of the planet,"
- accepted bitcoin and other cryptocurrencies as campaign donations
- courted the industry at a cryptocurrency conference this summer, and
- proposed creating a national stockpile of bitcoin

A Broad Impact: Already, President Trump's election has had a broad impact on the industry. Bitcoin, of course, jumped as the election results broke. But so did Elon Musk's favorite cryptocurrency, Dogecoin, along with crypto-related stocks like Coinbase and MicroStrategy. One industry executive has already predicted that President Trump could herald a "crypto golden age." That could be good news for crypto investors and the U.S. economy alike.

Rare Bees Thwart Meta's Plan for Nuclear-Powered AI

Meta's plan for a nuclear-powered AI data center have been scrapped after rare bees were found on land earmarked for the project, the Financial Times reports.

The Nuclear Option: Nuclear power has become a critical component in Big Tech's race for artificial intelligence, which uses a tremendous amount of energy to meet its computing needs. Both Microsoft and Google have announced nuclear projects to fuel their AI ambitions. Meta was hoping to follow suit.

A Total Buzzkill: Unfortunately for Meta, its nuclear strategy has been put on hold. Meta had hoped to partner with an existing nuclear plant to supply power to a new data center nearby, but it scrapped the deal after a rare species of bee was located on land that Meta hoped to develop.

Environmental Hurdles: Bee-gate is the latest environmental hurdle companies have faced, joining a couple other recent examples.

- In June, chipmaker Micron was forced to delay its planned construction of a new semiconductor fabrication plant in New York after a species of endangered bat was located nearby.
- In May, federal wildlife officials added the dune sagebrush lizard to the endangered species list, which could slow or restrict oil drilling in the Permian basin.

Vinegar and Honey: While many businesses generally oppose environmental constraints, that doesn't seem to be Meta's concern. To the contrary, part of the reason that Meta hoped to partner with a nuclear plant was to live up to its sustainability commitments, and, in particular, its net-zero pledge. If Meta is forced to rely more heavily on fossil fuels to avoid regulatory pitfalls, environmental activists will have only themselves to blame.

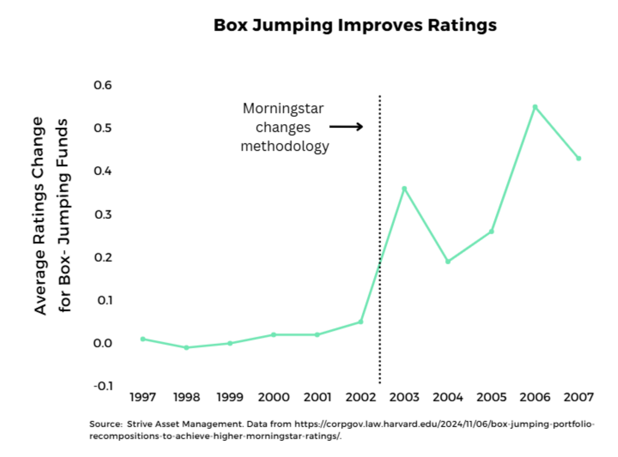
New Study Reveals How Mutual Funds Game Ratings System

A new study out of MIT and Harvard Business School shows that many mutual funds are gaming the system to get higher Morningstar ratings without achieving better performance, per a piece published in the Harvard Law Forum on Corporate Governance last week.

The Technique: The authors call the strategy "box jumping." Here's how it works:

- Morningstar groups equity funds into nine different boxes (small-cap value, small-cap growth, etc.) to evaluate their performance against their peers.
- But when a mutual fund "jumps" from one box to another—say, from small-cap to mid-cap—the fund is instantly re-rated by comparing its historical performance against the funds in its new box, rather than its old box.
- That gives mutual funds an incentive to shift holdings towards underperforming categories, so that the fund's historical performance looks better in comparison. Higher ratings, after all, allow fund managers to attract more assets and charge higher fees.

The Evidence: To determine whether this box-jumping was really happening, the authors looked at whether box-jumping led to better ratings before and after Morningstar implemented the methodology in 2002.



As shown in the chart, before 2002, box-jumping didn't lead to significant ratings changes. After 2002, it did. The authors also found that fund managers that had previously box-jumped were more likely to do so again.

Investors Beware: From an investor's perspective, the practice is dubious. As the authors explain, "by changing their portfolios to fit a new style box, funds may deviate from their core investment strategies, leading to lower future returns." That seems to be exactly the case. The researchers found that most of the ratings upgrades were temporary, reverting back within three years of the jump. Investors, however, don't seem to appreciate the difference, with box-jumping funds receiving the same boost in inflows from the ratings upgrade as non-box-jumping funds. From asset managers engaging in this strategic sorcery to the ratings agencies that enable it, in this case, it seems fair to hate the players and the game.

The Best of the Rest

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

- Trump administration likely to dismantle ESG regulations; climate disclosure rules and pro-ESG investing rules may all be on the chopping block.
- Invesco hit with $17.5 million fine over misleading ESG funds; Securities and Exchange Commission said the firm claimed 70%-90% of its assets under management employed an "ESG integration" strategy, despite the fact that Invesco held a significant portion of that money in passive index funds.
- U.S. companies look to "hive off" China-based operations as geopolitical tensions continue to rise.
- Carbon credits are meaningless; so why are so many companies buying them?
- Fed cuts interest rates by a quarter point; Federal Reserve Chair Jerome Powell says he has no intention of leaving position before his term ends.
- EU law panel discusses reach of sustainability laws outside of EU as countries outside its borders raise compliance concerns.

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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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