View in browser

STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

December 3, 2024

This Week: Financial Times highlights Strive's direct indexing service; Walmart rolls back DEI programs; Texas sues BlackRock, Vanguard, State Street for conspiring to increase energy prices.

On Friday, the Financial Times highlighted Strive's expansion of direct indexing, which may help investors minimize their tax bill via tax-loss harvesting, while gaining access to Strive's pro-shareholder approach to corporate governance. "The new service features daily scanning for tax-loss harvesting and in-kind transfers from existing equity portfolios, as well as proxy voting and engagement services ... without regard to ESG or DEI," the Financial Times explained. Per Strive's announcement, direct indexing is now available on the Fidelity and Charles Schwab platforms.

To learn more about Strive's direct indexing, read our press release here or click the link to the Financial Times article below.

Learn More

Walmart Rolls Back DEI Programs

Just ahead of Black Friday, Walmart unveiled a brand-new rollback: its DEI programs.

The Changes:

- Removing certain LGBTQ+ products, including those targeted at children;
- Winding down the Center for Racial Equity—a nonprofit Walmart established in 2020 with $100 million in funding for minority projects;
- No longer providing preferential treatment to certain racial and gender groups when choosing suppliers;
- Declining to participate in the Human Rights Campaign LGBTQ+ survey;
- Dropping the use of "Latinx" and "DEI" in official company communications;
- Ending employee training by the Racial Equity Institute, which promotes the belief that "racism in America is something white people do, because white people pretty much have all the power and control the institutions."

Then and Now: In 2020, Walmart CEO Doug McMillon was one of the most vocal DEI proponents. He apologized for America's history of "slavery, lynching, the concept of separate but equal" and other "tragic, painful, and unacceptable ... realities." He pledged to use Walmart's resources to "address systematic racism in society head-on and accelerate change."

Last week, Walmart returned to its roots, explaining that its "purpose, to help people save money and live better, has been at our core since our founding 62 years ago and continues to guide us today." The company stated it was "willing to change" and that, while the company "know[s] we aren't perfect," it sought to be a "Walmart for everyone."

Starbuck Strikes Again: Conservative activist Robby Starbuck took credit for the change, writing in an X post, "Last week I told execs at Walmart that I was doing a story on wokeness there. Instead we had productive conversations to find solutions."

DEI Under the Microscope: The change at Walmart comes as corporate DEI policies have been put under the microscope. One recent study from Rutgers University, for example, found that DEI trainings tended to increase hostility and authoritarian tendencies, and led people to wrongly perceive bias even where there was none.

A Big Impact: Over the past several months, Coors, Tractor Supply, Ford, Lowe's, John Deere and Harley Davidson have all scrapped their DEI programs. But while Walmart isn't the first to announce its retreat, it's certainly the biggest. As the nation's largest retailer and employer, Walmart simply can't afford to take sides in the culture wars. Now, it won't. This holiday season, Walmart's return to political neutrality is something we can all be thankful for.

Texas Sues BlackRock, Vanguard, State Street For Conspiring To Drive Up Energy Prices

On Wednesday, Texas, joined by ten other states, sued BlackRock, Vanguard and State Street for conspiring to limit coal production, driving up prices for American consumers, Reuters reports.

What's Going On: Per Texas Attorney General Ken Paxton,

> Over several years, the three asset managers acquired substantial stockholdings in every significant publicly held coal producer in the United States, thereby gaining the power to control the policies of the coal companies. Using their combined influence over the coal market, the investment cartel collectively announced in 2021 their commitment to weaponize their shares to pressure the coal companies to accommodate "green energy" goals. To achieve this, the investment companies pushed to reduce coal output by more than half by 2030.
>
> Blackrock, Vanguard, and State Street utilized the Climate Action 100 and the Net Zero Asset Managers Initiative to signal their mutual intent to reduce the output of thermal coal, which predictably increased the cost of electricity for Americans across the United States.

The Charges:

- Antitrust Violations: The complaint alleges that the Big Three committed antitrust violations both by amassing such large stakes in coal companies that are supposed to be competing with one another, and by coordinating with each other via groups like Net Zero Asset Managers.
- Deceptive Trade Practices: The states also allege that BlackRock "actively deceived" its customers by "consistently and uniformly represent[ing that] its non-ESG funds would be dedicated solely to enhancing shareholder value," while in fact "using *all* its holdings to advance its climate goals and ... promote the objectives of its output-reduction syndicate."

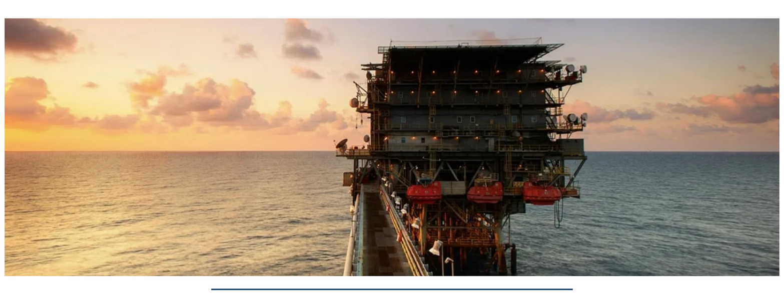
Zoom In: The 109-page complaint provides detailed allegations on how the scheme worked and the evidence plaintiffs plan to present. The complaint references, for example:

- Internal meeting minutes stating that "BlackRock understands that by joining Climate Action 100+, *it is expected to shift its voting to support climate resolutions.*"
- Emails from the climate activist group Ceres indicating that BlackRock's largest clients were pressuring BlackRock to "align [its] voting with CA100+" or "risk losing assets and clients."
- BlackRock's admission that it attempted to oust board members from hundreds of companies including Exxon and Whitehaven Coal for defying BlackRock's mandate to reduce greenhouse gas emissions.

No ESG Exception: As the lawsuit notes, there is no ESG exception to the antitrust laws. "The antitrust laws don't ... turn a blind eye to an illegal deal just because the parties commit to some unrelated social benefit," current Federal Trade Commission Chair Lisa Khan has explained.

What's Next: BlackRock and State Street called the lawsuit "baseless," while Vanguard hasn't issued a public comment. Defendants will likely have a couple months to file their response.

Oil Companies Back Away From Green Energy



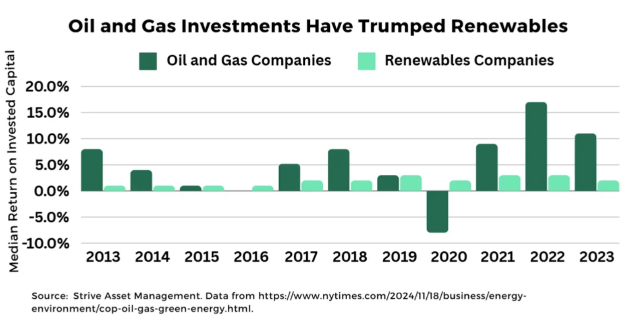
Oil companies are backing away from green energy, as renewable investments have significantly underperformed their traditional energy counterparts, the New York Times reports.

The Gist: For years, oil and gas companies have been under pressure to shift from fossil fuels to renewables. Some caved to the pressure, some didn't. Now, the results are in: companies that capitulated to environmentalist demands have seen share prices stagnate, while those that remained true to their mission have seen them soar.

Key Players:

- Exxon CEO told the New York Times, "I had a lot of pressure to get into the wind and solar business," but that he resisted it. Exxon's share price is up about 70% since 2019.
- BP and Shell, by contrast, spent heavily in wind, solar, and electric-vehicle charging. Their share prices are down 19% and up 15% over the same time period, the Times reports. And the companies are now walking back some of their green commitments.

A Picture's Worth A Thousand Words: Investments in oil and gas projects have also delivered far greater returns than renewables, particularly post-pandemic.



The Takeaway: "If you look at the relative shareholder returns, the market's been sending a very clear signal that it wants energy companies to focus on their core competencies," one energy industry investor told the Times. If the new, conventional-energy-focused strategies unveiled by Shell and BP are any indication, the industry may finally be listening.

The Best of the Rest

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

- "ESG standard writers jet set, spend big, and accomplish little," Bloomberg reports; International Sustainability Standards Board's 14 members make as much as $925,000 a year to fly around convincing countries to adopt their ESG reporting regime, but find few takers.
- Starbucks considering selling part of China business, acknowledging "the competitive environment is extreme"; new strategy follows Strive's engagement with company over China risk.
- Chinese startups suffer redemptions as IPO market remains frozen amid sputtering economy; Chinese companies call for "patient capital," while investors demand money back.
- ESG funds tumble after Adani Green Energy lost 25% of its market cap after prosecutors charged company founder with suspected bribery.
- Bitcoin closes November with nearly 40% gain; leading cryptocurrency edges closer to $100,000 milestone.
- EU to gut its sustainability reporting regime; the once-heralded sustainability rules—requiring companies to disclose thousands of data points on emissions, deforestation, human rights and other issues throughout supply chain—are now seen as bureaucratic "red tape" that threatens European competitiveness.

Know someone who might enjoy this newsletter? Be sure to share it with them. Not signed up and want to receive your own weekly copy of The Fiduciary Focus? Click here to sign up.

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.

Full disclosures and terms of use here.