STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Appellate court strikes down Nasdaq board diversity rules; shareholders vote down ESG proposals at Microsoft; The Bitcoin Brief examines what Google's quantum computing breakthrough means for Bitcoin.

Appellate Court Strikes Down Nasdaq Board Diversity Rules

Another big win for meritocracy: Last week, a federal appellate court tossed Nasdaq's controversial board diversity rules.

Catch Me Up: Nasdaq proposed a rule that all companies listed on its exchange must have at least two diverse directors on their boards or explain why they don't comply. The SEC approved the rule, and two nonprofit groups sued.

The Ruling: The Fifth Circuit Court of Appeals held that the SEC did not have the power to approve the rules because they fell outside the purposes of the Exchange Act, which Congress passed to protect investors from fraud, not allow the SEC to reshape corporate America to suit social or political goals.

For the Law Nerds: The Supreme Court's 2022 decision in *West Virginia v. EPA* strikes again. There, the Supreme Court held that the Major Questions Doctrine bars agencies from making rules related to major economic, social, or political issues, unless Congress was super clear that the agency has the power to do so. The Fifth Circuit invoked the rule to confirm its ruling that the Exchange Act did not give the SEC unbridled power to regulate publicly-traded companies.

Good Point: The Court rejected the SEC and Nasdaq's argument that the rule was merely intended to provide "full disclosure" for investors, explaining that such a principle would be limitless:

> Would not every disclosure rule be related to the purpose of full disclosure? For example, a rule that compelled disclosure of the religious affiliations of companies' directors. Or the presidential candidate they voted for in the most recent election. Or their position on the hottest political issue of the day. Or whether they recycle, drive electric vehicles, and take public transit.

Why It Matters: Racial and gender quotas like those described in the Nasdaq rule are highly controversial. And contrary to claims made by DEI proponents, there's no evidence that they help a company's bottom line. The Fifth Circuit's decision therefore frees Nasdaq-listed companies from being forced to play identity politics, allowing them to hire the best candidates for every position, from the mailroom to the boardroom and every room in between.

Microsoft Shareholders Vote Down ESG Proposals, Support ESG-Linked Pay

Microsoft shareholders voted down a series of ESG proposals at the company's annual meeting last week, including several focused on AI, Geekwire reports.

The Proposals: Notable proposals included:

- Anti-Weapons Development: The proponent sought to stop Microsoft from developing augmented reality headsets that could be adapted for military training and use, because such technology may "improve soldier lethality" and ultimately "help people kill."
- Anti-AI for Oil and Gas Industry: The proponent sought to stop Microsoft from providing AI solutions to the fossil fuel industry, because such technology may facilitate new oil and gas projects, which is not in line with Paris Agreement global warming goals.
- Anti-AI Development: The proponent lambasted Microsoft's AI for "dramatically increas[ing] misinformation and disinformation globally, posing serious threats to democracy and democratic principle," and asked Microsoft to report on how it planned to prevent future disinformation and remediate these harms.
- Human Rights: The proponent asked Microsoft to relocate the data centers out of Saudi Arabia, because the proponent believed that the country's "laws and cloud computing regulations are in no way aligned with international human rights standards."

The Results: Microsoft shareholders voted down each of the shareholder proposals, with support ranging from almost zero to 36%.

Mixed Signals: While a majority of Microsoft shareholders rejected these proposals, more than 90% supported the company's executive compensation policies, which reward executives for meeting non-financial ESG goals. Last year, each of Microsoft's top five executives received more than $1 million apiece for exceeding operational targets, including carbon reduction and DEI-based hiring goals.

The Bottom Line: The Microsoft meeting is a microcosm of what's happening all over corporate America: shareholders seem reluctant to vote in favor of new, headline-making ESG initiatives but are continuing to force companies to meet the ESG targets they already have in place.

Chinese Firm Ran A Billion Dollar Carbon Scam

Last week, the German news outlet DW reported the results of its months-long investigation of a billion-dollar Chinese carbon credit scam.

The Scam:

- As part of the green transition, German oil companies are required to purchase carbon credits to offset their emissions.
- To meet this requirement, many companies bought credits from a Chinese company called "Beijing Karbon," which claimed to do things like install energy-efficient oil and gas extraction equipment to reduce the CO2 emitted by Chinese oilfields.
- But when DW investigators went to a Shengli oil field to see the equipment in action, all they found was an abandoned chicken coop. Then, business addresses listed on compliance forms turned out to be residential apartments. Its officers had ties to the CCP. And satellite images of the alleged green projects didn't add up. Chinese partners stopped talking, as Beijing Karbon spread the word that "Anti-China-Media are using shady methods to smear all China projects."
- The result is what DW calls the "biggest climate fraud in Germany's history," a likely "criminal plot that has generated carbon credits worth roughly €1 billion ($1.05 billion) since its implementation in 2020 until it was shut down this year."

The Government's Response: Per Semafor, following a whistleblower complaint earlier this year, German "officials suspended all emissions-reduction projects in China, and are accepting no new projects anywhere." In addition, the government has suspended one senior official, a criminal complaint has been filed, and "police have searched the offices of audit firms responsible for verifying projects."

China's Role in the Green Transition: While China is certainly not the only country caught up in carbon credit scams, the Beijing Karbon scheme highlights how China supports climate change efforts, so long as they inure to China's best financial interests. China is happy to sell solar panels and wind turbines to U.S. customers; but fires up new coal plants to ensure cheap and plentiful energy at home. China is happy to provide green financing to developing nations; but only if it receives access to strategic ports in return. This time, China is happy to sell carbon offsets to Germany, but only if it doesn't have to actually offset any carbon. "Setting up a real project costs tens of millions," one insider told DW, "whereas faking a project just purely on paper, like out of thin air, you only need to forge a basket of new documents, and you gain hundreds of millions of euros in return." The carbon credits may be fake, but the money is real.

What Google's quantum computing breakthrough means for Bitcoin

Last week, Google released Willow, a breakthrough quantum computing chip that reduces its errors as it scales up in size. Although its 105 qubits (quantum computational units) are far short of the millions needed to crack modern cryptography, many are wondering if this advance in scalability threatens Bitcoin.

The worry is fair. The blockchain, Bitcoin's public ledger that allows it to serve as a decentralized currency, relies on two sets of numerical keys each holder has: a public one that everyone can see and a private one. These keys are like signatures the user attaches to transactions. A well-known quantum algorithm could use public keys to deduce private ones—like using your public signature to figure out all your passwords.

The problem goes far beyond Bitcoin. Virtually all digital assets are protected by similar cryptographic techniques designed to resist classical computers, not quantum ones. Your bank account's not going to be in any better shape than Bitcoin, if a bad actor somehow developed a practical quantum computer and attacked the financial system. Gold bars would be safe.

Fortunately, cryptographers have a variety of methods known to be resistant to quantum computing. They just haven't been standardized and implemented yet because they haven't been needed; with Willow, this work will likely accelerate.

The trick is to pose the computer a problem with more dimensions than it can keep up with. Even with its qubits, which can do more computations than classical bits because they can exist in more states, there's only so much a quantum computer can do. One promising class of quantum-resistant algorithms uses lattice problems, which involve grids of points in multi-dimensional space—basically, if you make the cryptography maze large enough, even a quantum computer gets lost, no matter how fast it can run.

Google's new chip doesn't directly endanger Bitcoin, and the problem it poses affects all digital assets. But it does make the quantum threat more acute. It will probably propel the world's efforts to adopt post-quantum cryptography, with the Bitcoin community leading the way by integrating quantum-resistant protocols in the blockchain.

As Bitcoin soared over $100K earlier this month, Strive CEO Matt Cole joined Marty Bent on the TFTC podcast to explain how Bitcoin further exposes the fallacy of the ESG movement.

Watch the full episode on X.
Watch on YouTube.
Listen on Spotify.

The views expressed in this material are the views of Matt Cole, Strive CEO, through the period ended December 2, 2024, and are subject to change based on market and other conditions.

The Best of the Rest

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

- Norway wants to cut energy link to EU; lack of wind in Germany is causing prices to skyrocket across the EU, making Norway reconsider whether to continue to connect to the EU grid or "only send electricity from its abundant hydropower abroad after it has ensured low prices at home."
- Nearly all Fortune 500 companies still maintain DEI commitments; new report shows that just a small fraction of companies have fully abandoned DEI.
- The Shareholder Commons pushes for new materiality standard; seeks to have companies disclose climate related information if material to an investor's entire portfolio, rather than an individual company.
- Florida State Board to remove China and Hong Kong from global equity benchmark.
- 85% of investors see greenwashing as a problem in ESG reporting, per new EY study.
- California gives companies one more year to comply with controversial climate disclosure rule; an estimated 75% of large American companies will be subjected to it, making it the de facto law for the entire United States.

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