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STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Congress releases report on the "sustainability shakedown"; Disney cuts trans story line from new series; debanking makes headlines again.

Congress Releases New Report on "Sustainability Shakedown"

Over the summer, we covered the House Judiciary Committee's investigation into ESG asset managers and their potentially collusive conduct to drive fossil fuel production down and prices up. Now, an interim report has been released.

Catch Me Up:

- In 2021, climate activists from a then-unknown startup called Engine No. 1 foisted three directors on Exxon's board in retribution for the company's refusal to reduce output. But Engine No. 1 owned only .02% of Exxon's shares. So who was really pulling the strings?
- To find out, the House Judiciary Committee subpoenaed BlackRock, State Street, public asset managers, climate activist groups, and proxy advisors. They deposed several key players. And they reviewed over 2.5 million pages of internal documents, showing how the organizations and their members coordinated to try to curtail U.S. fossil fuel production.

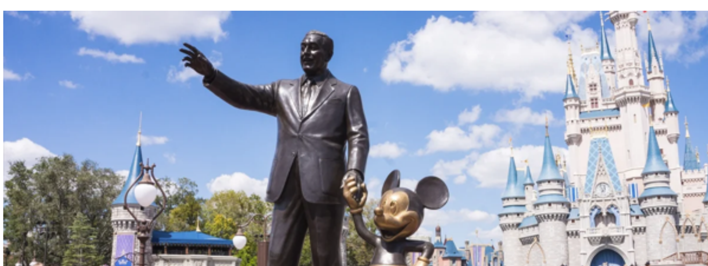
What They Learned: One of the biggest revelations is that it appears that many participants knew they were likely violating antitrust laws, but continued to collude anyway.

- BlackRock stated that it could push Exxon to pursue climate goals "in parallel," but that "the notion of not in the same room is key."
- State Street initially declined to join Climate Action 100+ "on the advice of both in-house and external legal counsel," who advised that working with the group "is likely to constitute 'collusion' between investors."
- Climate Action 100+ lawyers "do not believe [the group's work] aligns with the fiduciary duty" asset managers owe to their clients.

"Hell To Pay": The investigation also uncovered the true motive behind the attack on ExxonMobil. While the campaign's proponents, including BlackRock, publicly couched their support in terms of "long-term shareholder value," contemporaneous emails suggest a different rationale. "Exxon's board members should have hell to pay," wrote the Chair of Climate Action 100+'s Steering Committee, for rebuffing the organization's demands to cut production. The stakes were high. Climate Action 100+ needed to "show that engagement can have teeth." Exxon's refusal to play ball would not be tolerated; instead, it would be a warning to others "that this could happen to you."

Key Takeaways: The report is an impressive read. The 78-page account details how various players came together to orchestrate what might be the greatest climate takeover of the 21st century. There's no question that it lays the groundwork for potential antitrust prosecution—as the report alludes to in its concluding section. But the report is also striking in revealing how these actors misled the public, and at times their own clients, about what they were doing. Asset owners pursued "quiet engagements" to push their agenda while avoiding scrutiny; others used proxies so that they themselves could "stay behind the scenes." It took nearly four years and a federal investigation to uncover what really happened. Yet they've all denied wrongdoing, and, as the Committee notes, the climate cartel is still active to this very day. An antitrust enforcement action could ultimately provide some financial compensation to investors harmed by the cartel's collusion, but it will do little to restore their trust.

Disney Cuts Trans Storyline From New Series



Disney has cut a planned storyline about a transgendered middle schooler from an upcoming animated series, Variety reported last week.

Fill Me In: Disney has axed a transgender storyline from Pixar's first long-form series, "Win or Lose." The animated series follows a middle school softball team seeking championship glory and is set to premiere in February.

Disney's Explanation: A spokesperson told *Variety*:

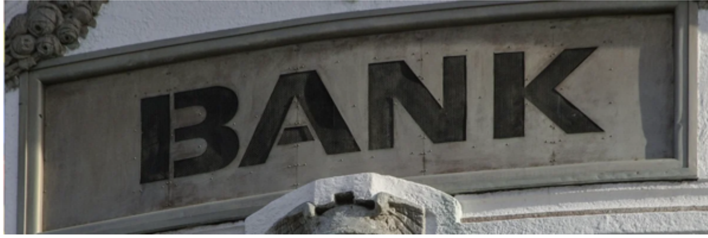
> When it comes to animated content for a younger audience, we recognize that many parents would prefer to discuss certain subjects with their children on their own terms and timeline.

A Dramatic Change: Disney's statement marks a dramatic change for the company, whose executives openly touted "adding queerness" to children's content in order to advance the "gay agenda" as recently as 2022.

Striving for Success: The change also follows Strive's engagement with the company on behalf of our clients, Disney shareholders, who have seen Disney's stock price suffer as a result of Disney's political activism.

The Silence Is Deafening: Perhaps what's most remarkable about Disney's most recent plot twist is how unremarkable it is. There are no boycotts. No riots at the park gates. No employee walkouts. Scarcely any media coverage. This kind of common-sense corporate return-to-normalcy used to require acts of bravery; now it just requires companies to act. There's no better time than today.

Debanking in the Headlines Again



Debanking is back, per a new report from the Bank Policy Institute, the Wall Street Journal wrote last week.

How It Works: The report details how federal examiners pressure banks to drop clients in disfavored industries:

> [One] tactic of examiners is to require banks to designate certain accounts — by company, sector and/or country — as “high risk.” ... Failing to close an account or terminate a customer relationship [after such a designation], even only with the benefit of hindsight, has led to penalties of hundreds of millions or even billions of dollars against banks in recent years.

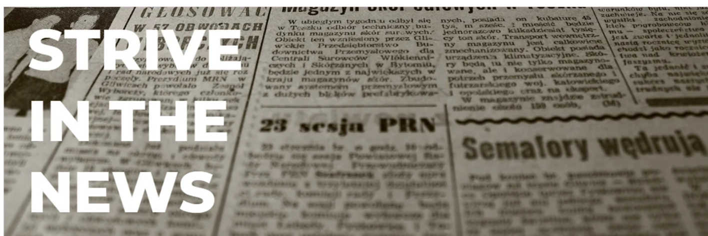
It's unspoken, but banks understand that when examiners designate a company or industry as "high risk," examiners "generally expect the account to be closed." And worse, under the banking laws, banks are typically forbidden from telling their customers why.

The Return of Operation Choke Point: Debanking isn't new, but its resurgence is. Its origins can be traced back to at least 2013, when the Department of Justice launched "Operation Choke Point" where it pressured banks to close the accounts of certain businesses—firearms dealers, telemarketers, payday lenders—on an industry-wide basis, without any individualized allegations of wrongdoing. The DOJ later acknowledged it was a "misguided initiative," yet here we are again.

Crypto in the Crosshairs: Under the Biden Administration, the Feds appear to be targeting crypto, per documents produced in response to the industry's FOIA requests. But the banking laws were meant to prevent money laundering, not lawful business activities, raising alarm bells for both crypto-enthusiasts and free market capitalists alike.

Lingering Concerns: While the Biden Administration's debanking efforts may soon be behind us, blue state officials may step in to fill the void. During President Trump's first term in office, for example New York's state financial regulator—a key player given the number of banks headquartered on Wall Street—urged banks to reconsider their business relationships with gun promotion organizations like the NRA.

The Bottom Line: Banking is a critical input to virtually any business. If a company can't accept credit cards or get a loan or open a bank account, it can't exist. Both regulators and ESG proponents know this—which is why they use debanking tactics to cut legal but disfavored businesses from accessing financial services. Reform is critical; hopefully, incoming regulators will agree.



Last week, the Financial Times featured Strive in its discussion of asset managers that have rejected the ESG movement:

> [Strive] attempts to change companies rather than blacklist them: its S&P index tracker casts the votes that come with its holdings against proposals that support stakeholders rather than shareholders. With $1.6bn of assets under management, its equity funds are more than 10 times bigger than [two other funds that take a divestment approach] combined.

Read the full article here.

The Best of the Rest

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

- Nissan latest company to curb DEI; will no longer use demographic hiring quotas, donate to Pride events, or require DEI trainings.
- Indiana fund narrows list to replace BlackRock following a state law requiring the pension fund to drop ESG promoting asset managers.
- China reaches record outflows of $45.7 billion as investors seek to pull money ahead of expected tariffs.
- Why the U.S. economy is crushing Europe's; American capitalism incentivizes risk-taking by rewarding outsized success.
- ESG's new battleground is the courtroom, with many legal fights underway about whether ESG should be permitted when investing pension fund money.

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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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Strive, 6555 Longshore St, Dublin, OH 43017, United States

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