STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: State Street forces ESG on all clients while claiming to provide a "choice"; Starbucks appoints new CEO; An Eye on Energy discusses diverging oil demand forecasts.

State Street Confirms Voting "Choice" Clients Cannot Opt-Out Of ESG

State Street's ESG head confirmed that its new voting choice program does not allow investors to "opt-out" of sustainability engagement objectives, Responsible Investor reports. Instead, clients can choose the "intensity" with which they want State Street's stewardship team to pressure corporate America on climate goals.

The New Program: Last month, State Street announced a twin-track stewardship program including a standard service and a new "Sustainability Stewardship Service" to "support those clients who wish for more active engagement on sustainability topics." At the time, State Street claimed it wanted to "provid[e] our clients with choices." As more details have emerged, however, it appears these choices are limited to different flavors of climate-focused engagements.

A Unified Pro-ESG Message: Per the article, State Street's standard engagement team and the new sustainability stewardship team will deliver the same message to corporate America. They will attend engagement meetings together and take care to "avoid[] 'mixed messaging' on expectations.'" Per the outlet:

> [State Street ESG Head Karen] Wong is also keen to emphasise that the firm's approach in its non-sustainability focused stewardship will not change, despite concerns that the new offering could mean it takes a step back in ambition. The global voting and engagement policy, as before, will consider sustainability issues...

In other words, investors now have a choice between sustainability-focused stewardship and super-charged sustainability-focused stewardship.

No Opt Out: To underscore State Street's devotion to ESG, Wong confirmed that State Street had "no plans" to "introduc[e] a service for clients who would like to opt out of any kind of stewardship on sustainability issues."

No Choice: State Street's new program proves a single asset manager cannot successfully offer different stewardship options. Logically, there are only two possibilities: Two engagement teams can either deliver the same message or different ones. If they deliver the same message, there's no choice involved. If they deliver different messages—say, one team tells Exxon to drill and one tells Exxon to stop—the engagement makes no sense, serving no one.

Criticism Mounts: State Street is not the first firm to take heat over self-described voting choice policies. Last year, the Wall Street Journal criticized BlackRock along similar lines, explaining that "BlackRock's 'voting choice' initiative recalls Henry Ford's famous line that a customer can have a car painted any color as long as it's black." Strive has also highlighted these concerns, including in an interview Strive General Counsel Alexandra Gaiser gave to The Daily Signal earlier this year.

Starbucks New CEO Has Work Cut Out For Him

Last week, Starbucks announced it was ousting CEO Laxman Narasimhan and replacing him with Chipotle CEO Brian Niccol. While many uncertainties remain, one thing is clear: Niccol will have his work cut out for him, the Wall Street Journal reports.

Challenges Ahead: With rising prices, global competition and politicized controversies, Starbucks's new chief will face significant hurdles in turning the company around. Per the Wall Street Journal, these challenges include:

- **Political Activism:** "Starbucks's cultural profile has made it a periodic target across the political spectrum," the Wall Street Journal reports. Starbucks has drawn criticism, for example, for encouraging baristas to talk about race relations with customers while serving coffee and for failing to support unionization efforts across its stores.
- **China Risk:** Starbucks also faces significant challenges in China, where it has focused its expansion efforts. Domestic competition is at an all-time high, as a struggling economy has dampened consumer demand.
- **Rising Prices and Wait Times:** The chain has also been plagued by rising prices and longer wait times, often caused by increasing app use in locations designed for dine-in cafe customers, not mobile app pick ups.

Good Governance Move: Bloomberg's Matt Levine described the move as "a model of good corporate governance":

> One thing that is striking in this story is how coolly and independently the board evaluated, and turned on Narasimhan... The board looked at the company and decided that it needed the best available CEO, and that was not its current CEO. So it called the best available CEO and hired him, then got rid of the current guy.

With many company boards beholden to CEOs, it's refreshing to see one making bold moves to try to help shareholders. Hopefully, Niccol will be able to deliver the venti-sized turnaround the company needs.

Gen Z Wants To Have Its Cake And Eat It Too

When it comes to fighting climate change, Gen Z may be less of an outlier than people tend to think: They believe environmental goals sound good in the abstract, but are largely unwilling to make personal sacrifices to make them happen, a new survey shows.

The Numbers: Two-thirds of first-time, young American voters said they support the U.S. reaching net zero by 2050, but far fewer supported the specific policies required to make it happen. For example:

- Sixty percent of respondents opposed banning the sale of gas and diesel trucks by 2035,
- Seventy-eight percent opposed vegan days at schools and workplaces, and
- A majority opposed an educational campaign to reduce meat and dairy consumption.

An Unsurprising Result: The results come on the heels of other studies reaching similar conclusions. A recent McKinsey study showed Gen Z is pulling back its support for ESG in general, while a Stanford University study found that "younger investors, in particular, were much less willing in 2023 to support ESG initiatives if it meant lower investment gains."

Gen Z Not An Outlier: In this respect, Gen Z is not an outlier. People of all generations generally voice much higher support for social and environmental measures when the costs are hidden from view. But when those measures translate to higher consumer prices or decline in quality, support plummets. Companies that adopt climate goals in a bid to win over customers would be wise to take note.

Oil Supply vs. Projected Demand Growth: Past rules may not matter

Last week, OPEC reduced its 2024 oil demand growth forecast by 100,000 barrels per day to around 2.1 million barrels per day. This is the first time that OPEC has reduced its demand projections since 2023. Its estimates are still higher than those of the IEA, which expects global oil demand growth to be around 900,000 barrels per day.

The divergence in demand growth is not a surprise. The IEA raised prospects for a supply surplus during Q4 of this year. The IEA claims that the current oil market is in a supply deficit and poised to switch to a surplus in October 2024 if OPEC+ unwinds its voluntary 2.2 mb/d production cuts. It also believes that non-OPEC supply increases across the United States, Guyana, Canada, and Brazil will cover demand.

When OPEC reduced its oil demand growth projections, it reflected the data from the first half of this year and factored in China's softening demand expectations. The IEA suggests that China's oil demand growth has reversed due to a slowdown in construction and manufacturing and the rapid deployment of vehicles powered by alternative fuels.

The current situation raises a crucial question: is global oil supply outpacing demand, or is our economy on a trajectory to consume the available oil supply?

The post-COVID era has thrown out many longstanding rules in the oil market. For example, West Texas Instrument (WTI) oil prices have remained below $90 (b) since September 2023. Even though the U.S. is producing more oil than anyone, the market is in a supply deficit with high geopolitical volatility that threatens oil supply chains.

The forecasting agencies' overemphasis on data has become a physiological test for the oil market. OPEC and IEA projections interpret the various readings based on their preferred narratives. OPEC is seeing stronger growth in demand, while the IEA believes that we are in a supply surplus, both using the same data points.

In the past, energy demand aligned with GDP growth, but in a power-hungry world, we should not assume that energy demand will behave as it did in the past.

Strive to Host Fund Spotlight Webinar

In today's macroeconomic environment, essential sectors like energy, defense, agriculture, nuclear, and precious metals can help build a portfolio that offers a compelling alternative to tech. Join Chris Nicholson, SVP of Research, and Alex Xethalis, EVP of Wealth Management Distribution, tomorrow, August 21st at 2:00 p.m. as they discuss these strategic sectors and highlight one of Strive's funds.

Register Now

The Best of the Rest

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

- Clean fuel start ups are collapsing; projects are becoming money pits, threatening to derail many companies' net zero goals.
- Barclays warns of Japanese-style recession in China; "We see some worrisome signs of a vicious cycle between wages and prices, with declining wage growth/rising unemployment coming hand-in-hand with falling price indicators."
- Court strikes down Missouri law requiring ESG disclosures and consent in part because federal law controls, highlighting the importance of the Department of Labor's ESG regulations and related litigation.
- Standard Chartered launches ESG-linked cash accounts; bank will be able to control, penalize corporate clients by increasing credit balance interest rates or imposing fees for bad social and environmental behavior.
- SEC and Nasdaq ask court to dismiss part of suit challenging diversity rule; they argue that Nasdaq no longer offers a free service restricted to helping companies recruit female and minority board members, and so that part of the lawsuit is now moot.
- Virginia Attorney General issues legal opinion on ESG; confirms that Virginia's Retirement System Board of Trustees "must prioritize financial returns" and has a "legal obligation to make objective investment decisions free from the sway of social or political agendas."
- Ripple lawsuit seen as victory for crypto, loss for SEC; $125 million fine was just a tiny fraction of the $2 billion the Securities and Exchange Commission was seeking.
- Over 100 lawsuits have been filed challenging DEI trainings since 2020; claims include civil rights violations, discrimination suits, hostile workplace claims, freedom of speech and religion violations, and even a case alleging that DEI training programs constituted unlicensed and illegal practice of psychology under state law.

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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.