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STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Strive racecar to debut at Talladega; CEOs fall into the corporate climate trap; An Eye on Energy discusses the resurgence of nuclear energy.

Strive Racecar to Debut at Talladega

The Strive racecar will be hitting the track at Talladega on October 6, with AJ Allmendinger at the wheel. We're excited to see Strive press for victory on the speedway, just as we do in corporate boardrooms across America.

To see a sneak peek of the racecar, watch the reveal with Strive CEO Matt Cole and co-founder Vivek Ramaswamy.

See It Here

The Corporate Climate Trap

CEOs continue to fall for the "climate trap," the Wall Street Journal wrote last week, following a letter from a group of Republican attorneys general warning that companies that make grandiose climate pledges may be violating consumer protection laws.

The Trap: The Journal argues that, in the past, companies made climate pledges to placate the progressive left and stay out of the political spotlight. That strategy is now backfiring, as companies that made such pledges are facing criticism from both sides of the aisle.

From the Left: Earlier this year, New York sued meatpacker JBS over its net zero goals, which the state alleged were incompatible with a business model centered around beef. Other ESG proponents have filed similar greenwashing suits, claiming companies aren't aligning business practices with their stated climate goals.

From the Right: More recently, conservative groups are joining the melee.

- The consumer advocacy group Consumers' Research, for example, sent a letter to Tyson Foods stating that "[c]ostly litigation harms the consumer. And that is doubly so when one outcome of the litigation is the removal of food products from store shelves in order to meet climate commitments that should never have been made in the first place."
- Last week, the attorneys general of Iowa, Kansas, Nebraska and Tennessee sent letters to three companies, Target, Tyson Foods, and Ahold Delhaize, warning them that marketing their "impossible-to-achieve goals" may "create potential for consumer fraud violations."

The Solution: The solution, of course, is for companies to steer clear of the climate pledge trap altogether. As the Wall Street Journal put it: "The best business path is to focus on maximizing shareholder value, which is what CEOs are paid to do and happens to do the most good for society."

ESG Not Dead Yet

ESG is not dead yet, a new Pitchbook survey reveals.

The Survey: The 2024 Sustainable Investment Survey polled over 500 investment professionals, from fund managers to asset owners to wealth advisors, to get their views on ESG and sustainable investing.

The Results: 64% of those surveyed said they take ESG into account in their investment decisions. But the mindset between its practitioners and nonpractitioners was stark:

- ESG Practitioners: Unsurprisingly, ESG practitioners believed ESG was a good thing, with most saying they personally used an ESG framework in order to ensure that nonfinancial environmental and social risks are identified so that they can be mitigated.
- ESG Nonpractitioners: Nearly 2/3 of nonpractitioners said they believed ESG was "mostly baseless virtue signaling," with one calling it "a total fraud" and another writing that "ESG is one of the worst things happening to the USA and the world, undermining personal freedoms and economic stability."

Impact Investors Keeping the Faith: Only 7% of impact investors acknowledged that they are accepting concessionary returns when they invest for social impact, with most claiming to believe their socially-focused investing will outperform financially.

DEI In Focus: A majority of impact investors plan to continue to advocate for DEI despite the Supreme Court's ruling banning affirmative action, although the surveyors acknowledged that DEI means very different things in different places. In racially homogeneous countries, for example, impact investors tend to think of DEI as pertaining solely to gender parity, and so they push for greater female representation rather than racial equity.

Toyota Latest Company Criticized for DEI

Toyota is the latest company to face backlash over its DEI policies, Bloomberg reported last week.

The Backlash: The Japanese carmaker is the latest company to be targeted by conservative activist Robby Starbuck. Per Starbuck's account on X, Toyota has:

- sponsored a drag queen performance at a LGBTQ+ kids summer camp,
- donated to groups that support controversial transgender policies,
- given preferential treatment to "diverse" suppliers, and
- held DEI trainings and resource groups for employees.

The Response: Toyota responded by distancing itself from these positions, stating that many of the programs were sponsored by a Toyota employee resource group, rather than the company itself. "Not every activity is sanctioned by the company," a Toyota representative told Bloomberg. "[W]e have over 14 affinities and 116 chapters and over 8,000 members in our ERGs."

The Risk: Toyota's explanation highlights yet another risk of race- and sex-based employee resources groups: their actions affect the company as a whole, even if they operate in a semi-autonomous fashion. There's no good reason they should be able to do so. In the wake of recent controversies, there's a strong argument for ERGs to be disbanded in full; at a minimum, companies need to exercise careful oversight to ensure that these groups aren't doing things that provide fodder for an exposé highlight reel on X.

AI Boom Sparks Nuclear Energy Resurgence

Last week, fourteen large financial institutions pledged to increase their support for nuclear energy, mainly to meet net zero targets by improving financing frameworks to fund projects. Recent developments have underscored nuclear energy's potential to meet the escalating demand for electricity.

Its ability to seize this opportunity depends on its ability to catch the current flow of AI-driven energy demand. That in turn depends on the growth of AI and data centers, which could represent 10-17% of total U.S. electricity demand by 2030. To meet this challenge, innovation, a new financing framework, and de-risking supply-chain capacities and workforces are required.

In 2023, 94 nuclear reactors in the United States contributed to about 20% of domestic electricity production, a figure that could rise even more due to AI. The U.S. nuclear fleet has maintained a 90% average annual capacity factor since 2012, a consistency crucial for meeting the 24/7 electricity needs of data centers.

Despite these advantages, the nuclear industry faces challenges, primarily high capital costs and construction overruns, leading to investor skepticism.

However, innovative approaches are emerging. Microsoft's new deal with Constellation Energy to restart Three Mile Island's Unit 1 demonstrates the private sector's interest in overcoming nuclear projects' political and regulatory hurdles. The partial meltdown of Unit 2 at Three Mile Island remains the only nuclear incident in America, which left many on the fence regarding these projects, although it didn't cause any casualties and involved a different reactor.

The recent support from financial institutions, coupled with innovative thinking and investments from the technology industry, is set to aid nuclear energy's expansion. This convergence of financial backing and tech industry interest instills a sense of reassurance and confidence in nuclear power's future.

The Best of the Rest

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

- EU tries to extend ESG regulatory reach to US companies; as "European companies are finding it increasingly hard to compete with their American peers" due to ESG regulations, EU regulators seek to level the playing field by regulating US companies too.
- Survey shows peril of corporate virtue signaling; most people want companies to stay out of politics, particularly when it comes to endorsing candidates.
- AI boom threatens ESG funds' love of tech stocks; surge in energy demand to power AI means the tech sector may no longer be an ESG darling.
- Vanguard fined $9 million by Australian court for allegedly misleading ESG funds.
- China's surprise stimulus could be a red flag; "investors should approach the nation's long-awaited rally with caution," Business Insider warns.
- ESG targets are much easier for execs to hit than financial ones; executives missed all ESG targets set in executive compensation plans just 2% of the time, but missed all financial targets 22% of the time.
- Open AI to become for-profit company by incorporating as a public-benefit corporation; how company will balance competing demands to generate profits and pursue social mission remains unclear.
- Companies say they are deprioritizing ESG, but also claim that ESG is not the same thing as sustainability.

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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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