STRIVE

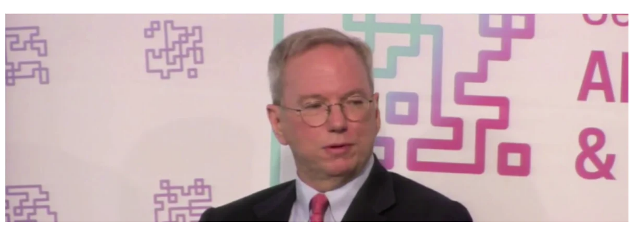
The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

October 15, 2024

This Week: Former Google CEO says AI will swamp climate goals; corporate boards are turning blue; companies revise DEI grant programs; An Eye on Energy looks at Argentina's growing investments in natural gas.

Google Ex-CEO: AI Will Swamp Climate Goals



Former Google CEO Eric Schmidt says corporate climate goals "will be swamped by the enormous [power] needs of this new [AI] technology," Axios reported last week, but that he'd "rather bet on AI solving the problem than constraining it."

The Issue: Over the past several years, companies have scrambled to make climate pledges, with over 87% of S&P 500 companies now setting numeric limits on how much carbon they will emit. But as we've explained, AI threatens to upend this trend, since artificial intelligence requires electricity. How much? A lot: Per some estimates, an AI server requires up to fourteen times more electricity than its traditional datacenter counterpart.

The Comments: Schmidt gave his comments at a conference in Washington, where he said "My own opinion is that we're not going to hit the climate goals anyway because we're not organized to do it." For that reason, he thinks that the world's best environmental bet is to trust AI to help us figure it all out, rather than limiting the potentially game-changing technology in the name of curbing emissions.

Why It Matters: Schmidt—who's been described as a "Democratic power player" and "longtime climate hawk"—is hardly a climate change skeptic. If even he's willing to recognize that there's little good that will come from American companies constraining themselves to fight climate change, perhaps companies will start to listen.

Corporate Boards Are Turning Blue

Corporate America's boardrooms are turning blue, a new study finds. And the reason may surprise you: Republican-leaning boards are more inclusive, while Democrat-leaning boards are far less likely to add new members with opposing political views.

The Study: The researchers—from Boston College, Emory University, and UCLA—examined the board composition of over 5,000 U.S. companies over the past twenty years. They looked at demographic data, as well as political affiliation, to determine how board diversity has changed since 2000 and why.

The Results: The study found that boards are increasingly leaning Democrat and that "asymmetric viewpoint inclusion" is to blame: "Republican-leaning boards are open to include minority directors with opposite political views, but not the other way around." Further, the researchers found these results were "more likely to be driven by ... ideology rather than by supply of talent," with "progressive boards" showing the most "reluctance to admit directors with diverse viewpoints."

Ruling Out Other Explanations:

- Not Due To Race/Gender Diversity: First, researchers looked at whether boards were bluer because companies were trying to increase the number of women and racial minorities on their boards, who might tend to lean more liberal. This wasn't the case. Among senior executives—i.e., where most board members come from—women and racial minorities are about equally split between Republicans and Democrats.
- Not Due To Unwillingness To Serve: Researchers also posited that Democrats might be more willing to serve on a board that is led by Republicans, while Republicans would be too uncomfortable, leading to bluer boards over time. This also wasn't the case, per their analysis of board departures and rationales.

Why It Matters: As the authors explain, "[t]his trend contributes to the much discussed 'political realignment of corporate America' during the last decade, where businesses are increasingly aligning with progressive policies and ideologies." If you want to figure out why so many U.S. companies have abandoned their shareholders to serve outside social causes, you have to look at the top. And at the top, it appears that many of the board members championing diversity, equity and inclusion haven't been so inclusive themselves.

Companies Revise DEI Grant Programs

Several companies have cut or changed DEI grant programs that were restricted to members of certain racial and gender groups, the Wall Street Journal reported last week.

The Context: Over the past year, once highly-celebrated corporate DEI programs have come under increasing legal, public and investor scrutiny. DEI grant programs—which typically award small female- and minority-owned companies money to grow their business—have been no exception. Now, some companies are rolling them back.

The Changes: Progressive, PepsiCo, and American Express were among the companies to make a change.

Changes to DEI Grant Programs

Company	Old Policy	New Policy
Progressive	$25,000 grants to black-owned businesses	Open to all business owners
PepsiCo	$20,000 grants and 6-month mentorships to Hispanic food and beverage business owners	Open to all business owners, application asks how products are "inspired by Hispanic flavors and cultures"
American Express	Launched and funded "Coalition to Back Black Businesses" initiative that handed out $14 million in grants to1600+ black-owned businesses since 2020	Allowed program to conclude

Source: Strive Asset Management; Data Source: https://www.wsj.com/business/companies-are-scrapping-or-rolling-back-dei-grants-e192efc1

Lingering Concerns: While some companies have cut such programs or opened them to all business owners, others seem to have outsourced the discrimination instead. UBS, for example, ended its in-house grant program, but donated $3 million to the Black Innovation Alliance—an organization that discriminates on the basis of race and appears to favor businesses that are little more than advocacy groups themselves. Prior grant recipients, for example, include a "Black intimacy coach" whose company focuses on teaching people how to "parent[] through white supremacy"; another recipient is a life coach and motivational speaker with a "deep-seated passion to dismantle systemic racism."

A Futile Fig Leaf: How UBS believes this advocacy will help its shareholders is anyone's guess. But shareholder value aside, the move is unlikely to give UBS the legal cover it presumably seeks. In June, for example, a federal appellate court shut down a race-restricted grant program run by Fearless Fund, even though the grant contest was technically administered through a separate nonprofit. As legal commentator Daniel Lennington put it, "laundering intentional race discrimination through third parties" is unlikely to provide even a "fig leaf of protection if lawsuits are threatened." For companies and shareholders, the only safe course is to end race and gender discrimination in its entirety.

Argentina's Growing Investments In Natural Gas

Argentina's fossil fuel sector is experiencing a remarkable renaissance, with its Secretary of Energy forecasting a robust $15 billion in energy investments for the coming year. This surge marks a significant turning point for a nation whose energy sector has long struggled to attract private capital, hindering economic growth.

At the heart of this transformation lies the Vaca Muerta shale formation, a geological marvel that has not only catapulted Argentina into an elite group of nations—alongside the United States, Canada, and China—but also serves as the high-tech cornerstone of its energy revolution.

Today, Argentina is South America's leading natural gas producer, with Vaca Muerta contributing 55% of its gross output. Its production has already led to a 5% increase in exports and a 47% reduction in Liquefied Natural Gas (LNG) imports from last year, paving the way for it to become a significant LNG exporter.

Expanding the natural gas sector presents a unique opportunity to address longstanding economic challenges, particularly the country's notorious struggle with inflation. Argentina can stimulate economic growth and reduce inflation by fostering investments in natural gas production and LNG export infrastructure.

Since resuming LNG exports in June 2019, with Chile and Brazil as primary customers, Argentina has set its sights on capturing a larger share of the lucrative Asian market. However, this ambition requires substantial investments in onshore liquefaction facilities, storage and pipeline infrastructure, and floating LNG-production vessels.

President Javier Milei, elected in November 2023, helped Congress pass the Regimen de Incentivo a las Grandes Inversiones (RIGI) in June 2024, legislation supporting advancing large energy projects by offering tax, customs, legal, and foreign exchange provisions for investments that exceed $200 million.

As Argentina navigates this pivotal moment, the world is watching with keen interest. The nation's ability to capitalize on its vast natural resources while addressing its economic challenges could redefine its position on the global energy stage.

The Best of the Rest

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

- Federal prosecutors indict executives over fraudulent carbon credits; allege that they manipulated survey results to inflate carbon reduction figures so their company could sell more offsets.
- Boeing lays off 10% of workers and delays new plane, as new CEO acknowledges that the company needed to focus its resources "in the areas that are core to who we are, rather than spreading ourselves across too many efforts that can often result in underperformance."
- Wall Street analysts skeptical of China rebound as they "wait[] for Beijing to back up its stimulus pledges with real money" and fear stocks may "already [be] reaching overvalued levels."
- Oregon forestry boss sidelined by DEI after diversity chief accused him of "hiring on the basis of merit not gender or identity."
- ISS shares its view of climate-focused shareholder proposals: support from asset managers may appear lower, but companies are being more proactive in setting and achieving climate goals.
- BP drops pledge to reduce oil output; had previously promised to slash output by 40% by 2030 to meet net zero goals.

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.
