View in browser

STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

October 22, 2024

This Week: ESG loses its glow in emerging markets; support for ESG proposals in the U.S. holds steady; The Silicon Surge sees China risk materialize for ASML.

CEO Matt Cole Appears on The David Lin Report

Last week, Strive CEO Matt Cole appeared on The David Lin Report, where he spoke about cryptocurrency, the debt crisis, and which presidential candidate he believes the market has already priced in.

To watch to the full episode, click below.

Watch Here

ESG Loses Its Glow In Emerging Markets

The appeal of ESG is fading in emerging markets as "profit seeking eclipses virtue," Bloomberg reported last week.

The Stats: Over the past year, bond sales in emerging markets have grown by 55%, to $527 billion. In the same timeframe, however, green bond sales have shrunk by 5%.

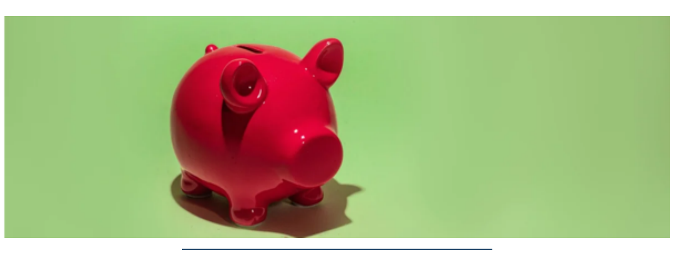
The Reason: Green bonds haven't performed as well as their non-green counterparts. "ESG investments in developing nations have floundered over the course of the past year," Bloomberg writes, while "[c]ompanies in the materials, utilities and industrials sectors have provided some of the best returns."

The Commentary:

- "The return outcomes of bonds with poor ESG metrics in both sovereign and corporate universes within emerging markets have simply been better in recent quarters."—Philip Fielding, co-head of emerging markets at Mackay Shields.
- "[The retreat from ESG by some US asset managers is] sending a little bit of less encouraging signals to the market."—Esther Law, senior portfolio manager at Amundi SA.
- "There's definitely been an undeniable trend toward energy security," which "prompts investors to think that if you invest in energy-intensive names, ... [you'll] perform better."—Giulia Pellegrini, senior manager at Allianz Global Investors.

A Harsh Truth: As Bloomberg explains, "sustainable [investors] confront a harsh truth: Spearheading this year's returns are bonds issued by borrowers with tarnished ESG reputations, raising questions about the financial viability of sustainable investing strategies." As always, virtue signaling doesn't come cheap.

Support for ESG Proposals Holds Steady



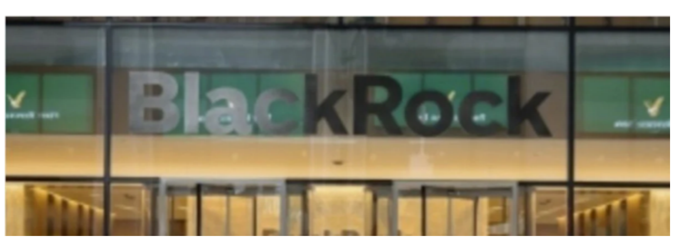
Despite some headlines claiming ESG is dead, asset manager support for pro-ESG shareholder proposals held steady in 2024, the Harvard Law Forum on Corporate Governance reports.

The Study: The authors looked at shareholder proposals at Russell 3000 companies from January through June of 2023 and 2024. They then excluded counter-ESG proposals—e.g., those that ask companies to scrap net zero plans or assess the risks that their DEI programs create—so that only pro-ESG proposals remained. Of this set, asset manager support remained virtually unchanged.

Not Financially Material: Notably, asset managers continued to support these measures despite the fact that such goals are often unconnected to the company's business and so unlikely to help the company's bottom line. In fact, a different survey featured in the Forum last week revealed that investors ranked "not meeting sustainability commitments" dead last in a list of fifteen issues likely to affect financial performance, below lack of succession planning, geopolitical risks, supply chain disruptions, cyberattacks, and more.

An Inescapable Conclusion: Asset managers are continuing to support ESG, even though the strategy is unlikely to deliver financial results.

BlackRock: 99% of Insurers Set Climate Goals



A new report from BlackRock reveals that 99% of insurers have set climate goals, ESG Today reports.

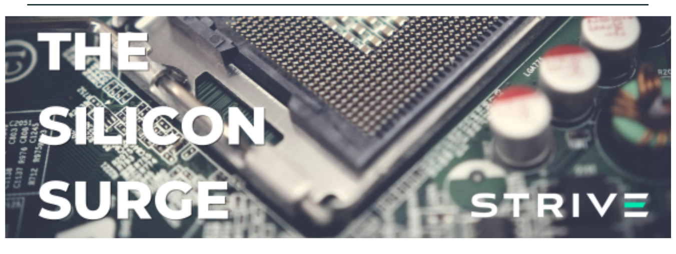
In Their Own Words: Per BlackRock's report (emphasis ours):

> The low-carbon transition is an area of focus for insurers, with **99% of those we surveyed having set at least one type of transition objective** within their investment portfolio. Insurers are also becoming a driving force behind transition finance initiatives, which in the past were chiefly the domain of industry and public bodies. Today, insurers are mobilizing insurance-sector capital and collaborating with asset managers to bring blended finance solutions to this funding gap.

BlackRock's Push: The survey results follow years of BlackRock's push for companies in all industries—including insurance companies—to pursue climate goals. BlackRock's climate focus universe, for example, shows that it has targeted over a thousand companies, including Berkshire Hathaway, Zurich Insurance, and DB Insurance, to press them on their transition plans.

Why It Matters: Insurance companies play an important role in the climate-finance ecosystem because they control trillions of dollars in assets under management. ESG-minded asset managers like BlackRock therefore view insurance companies not just as portfolio companies whose own greenhouse gas emissions should be minimized, but as a potential partner in their efforts to use financial clout to engineer ESG outcomes across corporate America.

The Danger: Steering insurance company assets towards riskier, unproven green technologies and refusing to insure higher-emitting customers could prove costly for insurers. Last year, for example, twenty-two state attorneys general launched an investigation into these practices, citing concerns that they may raise insurance costs and violate state and federal law. Neither BlackRock nor the insurance companies in which it invests, however, seem particularly deterred.



ASML's China sales slowing drastically

Earlier this month, we delved into China's efforts to replicate ASML's lithography machines and the obstacles they faced. Now, our concerns have materialized, with ASML's reliance on China dealing a severe blow to its financial standing.

After accidentally releasing its earnings ahead of schedule, ASML now projects that China will account for only 20% of its revenue by 2025, representing a substantial 48% year-over-year decline. This shift results from the U.S. government's increasingly stringent restrictions on exporting advanced semiconductor equipment to Chinese firms.

Throughout 2023, Chinese chip companies have been a driving force behind ASML's sales as they aggressively pursued the development of state-of-the-art manufacturing facilities. This trend, however, is undergoing a rapid reversal.

The ongoing trade tensions between the U.S. and China have placed ASML in the crossfire of an escalating economic and technological rivalry between the world's two largest economies. The restrictions on selling its cutting-edge extreme ultraviolet lithography machines to Chinese customers will not only impact its short-term performance, but could have a far-reaching impact for years.

And it's not only China jeopardizing the future of ASML's balance sheet.

The semiconductor industry's plans to rapidly expand manufacturing capacity in the U.S. face several roadblocks. Chip giants like Intel, TSMC, and Samsung have all announced delays in their U.S. fab projects due to supply chain disruptions, labor shortages, and ongoing uncertainty surrounding government subsidies to boost domestic semiconductor production.

These delays in new fab construction and expansion projects will likely have a cascading effect on the demand for ASML's high-value lithography systems needed to create chips. It's worth noting that many fab companies initially expressed concerns about adopting ASML's new machinery due to their substantial costs. The current economic climate and project delays may exacerbate these concerns, potentially leading to deferred or more canceled orders.

While ASML will continue to attract business from established semiconductor facilities, this doesn't negate the risks associated with its Chinese market exposure. ASML faces a dual threat: the rapid contraction of the lucrative Chinese market due to geopolitical tensions and the potential slowdown for lithography demand from the delay in U.S. fabs.

As ASML adapts to these challenges, its decisions will likely have far-reaching implications for its future and the entire semiconductor ecosystem.

The Best of the Rest

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

- Study: California's gender quotas decreased profitability; "gender quotas appear to have a negative effect on return on assets (RoA), which decreases by 9.49%," but "adding one female board member increases a firm's environmental performance by 4.74% and reduces environmental damage by 7.41%."
- McKinsey pulls back on China; "Western businesses with decades of experience in China—both McKinsey and those it advises—are facing some of their most challenging times because of geopolitical tensions and the slowing Chinese economy," the Wall Street Journal reports.
- Elliott nominates eight directors to Southwest board; calls special shareholder meeting in a bid to turn around the troubled airline.
- State attorneys general are stepping in to protect investors from ESG where Congress has been slow to act.
- COP29 set to kick off next month; the World Bank hasn't given up on its global climate aspirations.
- Recruiting company that excludes white and Asian jobseekers sued for discrimination; the defendant, Jopwell, partners with BlackRock, Google, Delta, and other large employers to fill openings with minority applicants to meet race-based quotas and other DEI 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.