STRIVE

# The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

**September 4, 2024**

**This Week:** Strive CEO Matt Cole to speak at FT Live; more companies back off DEI; An Eye on Energy talks about gas consumption's impact on the Fed.

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## Strive CEO Matt Cole to Speak at FT Live

Later this month, Strive CEO Matt Cole will be speaking alongside over 70 C-Suite members from the largest asset management firms at FT Live's Future of Asset Management North America.

Matt will participate in a panel discussion, taking the pro-shareholder position that asset managers should unwind their ESG commitments, as well as commitments to organizations like Net Zero Asset Managers and Climate Action 100+, and refocus on their core financial responsibilities.

Find out how to attend in person here and save 20% with the code SPEAKER20.

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## More Companies Pulling Back From DEI

More companies are backing away from diversity, equity and inclusion (DEI) programs, the Wall Street Journal reported last week.

**The Scoop:** Last week, Ford and Lowe's both announced they're rolling back their most divisive DEI policies, following similar moves by Jack Daniel's, Tractor Supply, Harley Davidson and Best Buy.

**The Nitty Gritty:**

- Lowe's will no longer submit data to the Human Rights Campaign or sponsor pride events. The company also confirmed that its "hiring is not and has never been based on numbers or targets."
- Ford will also no longer participate in the Human Rights Campaign survey, disavowed the use of employment quotas, and pledged to focus on business rather than "publicly commenting on the many polarizing issues of the day."

**What's Up With The Human Rights Campaign?** The once little-known organization has become a flashpoint for companies caught in the political crossfire. When HRC first started rating companies in 2002, it generally looked at whether companies actively discriminated against LGBTQ+ people, and few people outside of that community seemed to notice or object. Over time, however, the organization's goals have become more radical, like pressuring companies to support transgender participation in women's sports and adopt supplier set-aside programs that benefit business owners that identify as LGBTQ+ at the expense of those who do not. These new policies have proven far more controversial, causing some companies to reconsider their support.

**A Balancing Act:** For years, progressive activists have been pushing companies to conduct racial equity audits and adopt DEI programs—often threatening to engage in boycotts if targeted companies didn't comply. This past summer, conservative Robby Starbuck has been using similar tactics to get companies to drop these policies. Now, some companies are trying to get ahead of the controversy, abandoning DEI policies before they attract too much attention.

**The Wall Street Journal's Take:** "Mr. Starbuck and his whistleblowers are doing companies a favor by warning them of the potential lawsuits to come. They are also steering companies back to their fundamental mission to focus on increasing shareholder value, rather than politics."

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## State AGs Launch New Probe Into ESG Voting By Asset Managers

Twenty-four state attorneys general have launched a probe into twenty-five asset managers accused of breaching their fiduciary duties by placing ESG interests over those of their clients, the Daily Wire reported last week.

**The Allegation:** The letter accuses the 25 asset managers—including Morgan Stanley, UBS and HSBC—of blindly following the pro-ESG voting recommendations of proxy advisor Institutional Shareholder Services (ISS) rather than voting to maximize their clients' returns. As Montana's state attorney general explained:

> The asset managers appear to be more concerned with earning social credit than doing what's best for their clients. If they are deferring their analysis and decision making to environmental activist groups, then they are failing to meet their fiduciary duty to their shareholders.

**Go Deep:** The letter gives three reasons why asset managers may break the law when they outsource their votes to ISS:

- ISS Seems To Support Money-Losing Propositions: The environmental proposals ISS (and these asset managers) support, like asking companies to cut off production to reduce their carbon footprint, do not help shareholder value on their face. Company management opposed them, and so did the market more broadly.
- ISS May Be Conflicted: ISS is owned by a foreign parent company that has pledged allegiance to several activist organizations that seek to phase out fossil fuels and push companies towards social goals.
- ISS Admits It Conducts No Financial Analysis: ISS sets its policies based on roundtables and surveys and feedback from third parties; ISS mentions no requirement of any financial or economic analysis at all.

**What's Next:** The letter asks the asset managers to explain how they rely on ISS, how they vetted ISS's conflicts of interest, what the asset managers disclosed to their clients about their voting policies, and more. Responses are due October 4.

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## Facebook Strives For Political Neutrality

Facebook is making changes to its content moderation and political contribution policies in an attempt to stay out of politics, The Hill reported last week.

**Catch Up Quick:** Congressional Republicans have accused the social media giant of censoring truthful posts about Covid-19 and unfavorable stories about the Biden family. On the other side of the aisle, ESG advocates argue that Facebook has not done enough to censor conservative-leaning sources that they believe spread misinformation.

**Strive Speaks Out:** As the debate reached Meta's annual meeting this Spring, Strive weighed in, sharing its view that Facebook should set and adhere to politically-neutral content moderation policies. As we wrote at the time:

> Facebook's content moderation policies ... should be based on what's best for business, not what pleases ESG activists. Strive is focused exclusively on driving financial returns for our clients; from our perspective, asking Facebook to engage in politically-motivated censorship doesn't make cents.

**Zuckerberg's Letter:** Three months later, it appears that Facebook is heeding this advice. In a letter CEO Mark Zuckerberg sent to Congress last week, he admits that "the Biden Administration, including the White House, repeatedly pressured our teams for months to censor certain COVID-19 content, including humor and satire," but that the company is now "ready to push back if something like this happens again." Zuckerberg further explained that he would be pulling back from political contributions to avoid any appearance of political favoritism. "My goal is to be neutral and not play a role one way or another—or even to appear to be playing a role."

**Good Business Move:** Facebook's pledge to steer clear of even the appearance of political partisanship will likely inure to the company's benefit, as new polling reveals that more and more Americans want companies to stay out of politics.

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**Gasoline Consumption's Impact on the Fed**

Federal Reserve Chairman Powell indicated that the Fed may cut interest rates at its September Open Market Committee meeting.

Interest rates have skyrocketed over the years due to inflation. In June 2022, inflation hit 7.1%, the highest level since the 1970s, but has declined to 4.5%. Inflation resulted from a rapid increase in demand for goods due to supply chain disruptions and sharp spikes in energy and commodity prices after Russia invaded Ukraine in 2022.

The Fed is sensitive to upside risks to inflation heating the labor market or harming inflation expectations. In the past, improvements in supply conditions and a return to expected demand for goods and services took longer to normalize due to the various pandemic restrictions and disruptions from various geopolitical events.

If housing and shelter prices stay high or if geopolitical events cause severe disruption to energy supplies and commodity prices, it could impact the Fed's decision to reduce interest rates.

The United States Energy Information Agency (EIA) reported that in 2022, energy expenditures for U.S. consumers and businesses increased 22% from 2021. Gasoline prices have fallen —the retail price for gasoline over Labor Day weekend was $3.36 per gallon, down from $3.81 this time last year, but still remains high.

Last week's EIA gasoline inventories decreased by 2.2 million barrels this summer. As Americans continue to drive, gasoline will increase, which could impact the Fed's decision by encouraging more aggressive rate cuts.

Today's labor market is more relaxed than before the pandemic; however, in the last jobs report, unemployment remained low at 4.3% since more jobs were available. The labor market outlook affects forecasts for gasoline consumption. Fewer employed workers mean less driving and less gasoline consumption, and more gasoline consumption means more employed workers.

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### The Best of the Rest

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

- Forbes: "BlackRock Didn't Pull Support of ESG" despite company's claims otherwise; independent analysis shows that BlackRock's pro-ESG votes were "within their normal range" and "[a]ny drop of support is tied to the reality that companies have aggressively adopted sustainability, climate change, and other ESG policies over the past few years"—all measure that BlackRock refuses to "roll back."
- Starbucks lambasted for carbon footprint of CEO's super-commute while asking small dairy farmers to cut emissions and customers to sip $7 lattes from paper straws; "It isn't hypocrisy; it's hierarchy."
- Fewer Americans concerned about climate change; less than half believe it is a "very serious issue," down 10 percentage points from 2021.
- Big Tech opposes California's new AI bill, arguing it threatens to stifle innovation through "extreme" regulations and potential liability on AI companies; Governor Newsom has until September 30 to veto or sign.
- Climate group sues Texas over ESG law that bans companies that boycott fossil fuels from doing business with the state; Texas Comptroller Glenn Hegar says suit is frivolous attempt to force Texas and its taxpayers to invest "in a manner inconsistent with their values and detrimental to their own economic well-being."

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**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.



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