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STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

September 24, 2024

This Week: Intel and the U.S. lose their bet on ESG; BP to sell off wind projects; The Silicon Surge talks about China and the black market for AI chips.

Intel cut its dividend. CHIPS Act funds are stalled. The semiconductor race is on, but the U.S. is falling behind. What gives? Last week, Strive CEO Matt Cole and SVP of Research Chris Nicholson made a compelling case that ESG may be to blame in a piece for Townhall titled "Intel and the U.S. lose their bet on ESG."

Read It Here

BP to Sell Off Wind Projects

Oil giant BP is putting its $2 billion U.S. onshore wind business up for sale after deciding to refocus efforts on fossil fuels, the Financial Times reports.

The Rationale: Per the company's press release, its wind assets are "not aligned with our plans for growth" as it seeks "to deliver a simpler, more focused, higher value company."

What's Really Going On: In 2020, BP's prior CEO, Bernard Looney, made one of the industry's most ambitious pledges to rapidly move away from fossil fuels. Since then, BP's share price has plunged 20%. In January, new CEO Murray Auchincloss took the helm, and he's been trimming the company's renewables business to refocus on oil and gas production.

More Changes Afoot?: Analysts also expect BP to roll back its pledge to voluntarily cut fossil fuel production 25% from 2019 levels to fight climate change. The new CEO is "a lot more pragmatic, returns-focused and hard-nosed about it," one investor told the Financial Times in May. "We'd all love them to build more in renewables but from a shareholder point of view, returns are not there."

ESG Activists Push Back: ESG activists are unhappy with the renewed focus on shareholder value. The Dutch non-profit Follow This responded to the news by criticizing BP for "endanger[ing] the global economy by exacerbating the climate crisis." It also emphasized the power of shareholder voting, explaining that "BP will only change if more shareholders vote for change."

Strive's Take: We agree that shareholder voting is paramount, and are heartened to see BP is listening to its returns-focused investors and putting the company's financial health first.

Keurig Settles With SEC Over ESG Disclosures

Keurig has agreed to pay a $1.5 million fine to settle with the SEC over its allegedly misleading ESG disclosures, NPR reports.

The Allegations: In 2014, Keurig pledged to make its coffee pods 100% recyclable by 2020. That year, Keurig announced that it had converted all of its cups to recyclable plastic and did extensive testing to confirm that they "could be effectively recycled." Per the SEC, this statement was misleading because Keurig did not disclose that two recycling facilities gave Keurig negative feedback during the testing process, saying they didn't think it would be commercially feasible for them to recycle the k-cups at that time.

The Dissent: Commissioner Hester Peirce dissented from the order for two reasons:

- Not misleading: Peirce did not believe Keurig misled anyone because it was true that the k-cups "could" be recycled, even if only certain recycling facilities would accept the cups.
- Not material: Peirce also noted that the SEC never even claimed that the recyclability of k-cups was material to investors—a requirement for the SEC to intervene.

The Bigger Picture: The case exposes the dangers of making ESG pledges. Surveys show that 75% of companies believe their industry is overstating their progress towards sustainability goals, and 60% believe they would be caught greenwashing if they were thoroughly investigated. That's a huge risk, and one shareholders shouldn't be forced to bear. Hopefully, the Keurig case will cause other companies to wake up and smell the coffee.

Caterpillar Latest Company to Roll Back DEI

Caterpillar joins Ford, Molson Coors, Lowe's, Tractor Supply, John Deere, and more in rolling back its DEI programs, Fox Business reported last week.

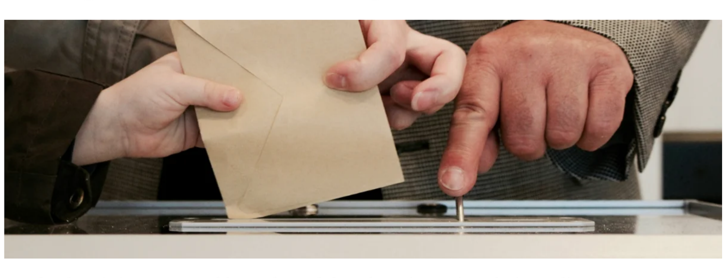
The Changes: Per the all-employee memo:

- DEI trainings are nixed: "All training, both formal and informal, must be focused on our business and designed to foster high performance and execution of our enterprise strategy."
- So is submitting data to the Human Rights Campaign. Now, "[the] decision to participate in a survey or apply for an award must be focused on our business objectives and approved in writing by the responsible Senior Vice President, Group President and Chief Human Resources Officer."
- Employee resource groups are also being overhauled, with new guidelines on speakers, donations, sponsorship programs and more.

Pushback to the Pushback: The changes were reported just one day after the NAACP and other DEI activists wrote an open letter to Fortune 1000 companies urging them to stick with their DEI programs despite consumer boycotts.

Strive's View: Following the Supreme Court's affirmative action decision law year, it's clear that the corporate DEI bandwagon is on a collision course with the law. Jumping off the bandwagon may not be easy, but it sure beats the alternative. For other companies deciding whether or not to join the next ESG fad, it's worth remembering that the only companies unscathed by current controversies are the ones that never jumped on the DEI bandwagon to begin with.

Vanguard Releases Voting Choice Data



The data is in. Vanguard has released data from its voting choice policy, Reuters reports. The results, however, may raise more questions than they answer.

The Numbers: Per Vanguard's press release, nearly 45% of investors chose to stick with Vanguard's standard policy, 30% deferred to management, 24% chose a pro-ESG policy, and 2% abstained.

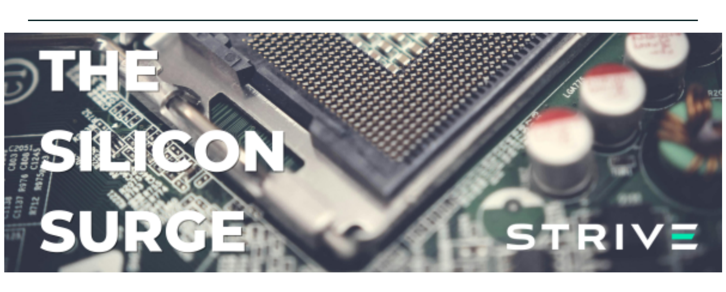
The Truth: What Vanguard's press release fails to mention is that just 2% of eligible investors opted into the program. That means that less than 1% of Vanguard's investors affirmatively chose to let Vanguard use its own judgment to vote their shares, and that less than .5% of investors chose the ESG policy—a figure that includes voting policies chosen by investors in Vanguard's ESG funds.

No Real Choice: As is commonly the case with self-described voting choice policies, the menu of options is limited to pro-ESG fare; Vanguard does not offer a non-ESG option.

Vanguard's Pro-ESG Stance: Despite claims otherwise, even Vanguard's standard voting policy supports hundreds of pro-ESG causes, including votes at:

- Coca-Cola, to tie 10% of executive bonuses to meeting DEI quotas, including 50% female leadership by 2030 and a workforce that precisely mirrors the racial composition of the United States.
- John Deere, to pursue its greenhouse gas reduction targets without disclosing the cost of such climate efforts to shareholders.
- Costco, to reelect a board member who has pledged to "weasel [her] way" into the nominating process to push for 50% female representation, and to award the CEO an additional $100,000 bonus for meeting environmental and social goals.

Mixed Messaging: It's further unclear how Vanguard plans to engage with companies when different investors have differing views on how companies should be run. But if Vanguard's voting choice program is opaque, that may by design. The more an investor tries to understand these programs, the more confused they're likely to be.



China turns to the growing AI chip black market

China is falling behind in its efforts to become an advanced semiconductor hub. Experts claim it'll take it five to ten years to catch up to the U.S. and its allies. This accounts for the time needed to develop the technology and design and refine it as chipmaking advances. The lag is due to the ongoing geopolitical tensions with the U.S., since China can't acquire cutting-edge machinery or chips to move forward.

However, China still has a way to get its hands on advanced AI chips.

A New York Times investigation found an underground marketplace is selling and transporting banned AI chips to China despite the extensive regulatory roadblocks. They found that a network of smugglers is obtaining some of Nvidia's powerful AI chips and is working with state-affiliated groups to assist the Chinese military.

Given heightened demand, it's not surprising that there's an underground market for AI chips. However, the involvement of state-affiliated groups and potential military applications should raise significant geopolitical and national security concerns for the U.S.

Advanced AI chips can dramatically enhance military capabilities, including autonomous systems, cyber warfare, intelligence analysis, and weapons targeting. If state actors can consistently circumvent these restrictions, the effectiveness of U.S. export controls is compromised.

Estimates claim that 12,500 chips are smuggled annually. While the number of smuggled chips represents a small fraction of global sales, their concentration in AI startups and research institutions could boost China's technological development and national security.

In addition to an underground chip market, Chinese research institutes and universities also continued to purchase Nvidia's high-end AI chips from re-sellers after the export ban went into effect. They claim it's easy since these tech companies are so large that controlling their supply chains is hard.

To avoid further regulatory scrutiny, it's imperative that companies like Nvidia and their partners implement more rigorous supply chain tracking and verification processes to address these issues. Equally important is the need for international cooperation between the U.S. and its allies to create a more comprehensive and effective export control regime. This could involve coordinated enforcement efforts, shared intelligence on smuggling networks, and harmonized policies to prevent diverting advanced chips to unauthorized entities like China.

Strive EVP of Corporate Governance to Speak at the Essential Summit Conference

Join Strive EVP of Corporate Governance Justin Danhof at the Essential Summit Conference on October 3, 2024, where he'll be sharing his views on why engagement beats divestment when it comes to creating positive change in corporate America. He will also suggest some tools investors can use to help companies stay out of politics and get back to business.

Learn more and get tickets here.

Plus, remember to check out Strive's appearance at FT Live tomorrow, where Strive SVP of Research Chris Nicholson will be participating on a panel on whether the writing is on the wall for NZAM and Climate Action 100+.

The Best of the Rest

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

- Missouri appeals ruling that blocked its ESG law that required investment managers to give notice and obtain consent before using non-financial, social considerations when making investment decisions with client funds.
- ESG "echoes the statism of 20th century totalitarians" new Washington Post piece argues.
- House passes more bills to protect companies and investors from ESG; one bill would limit power of regulators to push ESG on companies, another focuses on protecting retirement savings.
- Pessimism deepens among China investors; "The fear is that the authorities are losing control of the economy and they won't admit it," one commentator told Bloomberg.

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