[View in browser]

STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

October 8, 2024

This Week: Philip Morris faces DEI backlash; State prosecutors launch probe into Nasdaq diversity rules; The Silicon Surge talks about China's uphill chips battle.

Philip Morris Faces DEI Backlash

Philip Morris is the latest company to face backlash over its diversity, equity and inclusion policies, the Daily Mail reported last week.

The Backlash: Philip Morris was recently criticized by the consumer protection organization Consumers' Research over its DEI policies. "Instead of focusing on consumers, [tobacco] manufacturer Philip Morris has instead betrayed its own customer base" by "putting policies like DEI at the heart of the organization," Consumers' Research Executive Director Will Hild told the outlet.

The Details: Philip Morris has long attempted to brand itself as an ESG leader, pledging to "establish DEI across our organization—rather than just in pockets—so that it can inform every aspect of our activities, from the marketplace, to the communities in which we operate, and outwards to society at large." In March, the company also touted that it was included in the Jones Day Sustainability World Index for the first time and that it was the only tobacco company to earn a "Prime" award from ISS for its ESG efforts. Those efforts include:

- Funding a summit featuring the CEO of an LGBTQ+ organization that hosts online chat rooms for children to anonymously discuss their sexuality with adults, without parental consent;
- Setting gender quotas for 35% of senior roles to be filled by women by 2025;
- Pledging to reduce net carbon emissions to zero across its value chain by 2040, and more.

A Controversial Industry: As we've discussed, tobacco has been a flashpoint in the ESG movement at least since California's largest pension funds divested from the industry in 2000. Today, more than 200 investors with $16 trillion in capital have signed the Tobacco-Free Finance Pledge. But with many ESG investors refusing to invest, who is Philip Morris trying to appease? From a purely business perspective, Philip Morris has enough of a PR challenge balancing consumer demand for its products with the reality that those products are not healthy to use. There's no need to invite more controversy via virtue-signaling ESG initiatives.

Time to Quit: To deliver for shareholders, Philip Morris needs to focus on its business, instead of blowing ESG smoke.

State Prosecutors Launch Probe Into Nasdaq Diversity Rules

On Thursday, 22 state attorneys general sent a letter to Nasdaq over its board diversity rules, the Wall Street Journal reports.

The Rule: In December 2020, Nasdaq announced a new quota system that "require[d] most Nasdaq-listed companies to have, or explain why they do not have, at least two diverse directors, including one who self-identifies as female and one who self-identifies as either an underrepresented minority or LGBTQ+."

The Letter: The attorneys general, led by Iowa Attorney General Brenna Bird, asked Nasdaq to explain how the quotas could possibly comply with their state's antidiscrimination laws. "Given Nasdaq's zealous desire to impose quotas on companies, several of which are headquartered in our states, we are interested in learning what policies Nasdaq has in place to ensure its listed companies are following federal and State antidiscrimination laws," the coalition wrote.

Legal Limbo: The Nasdaq rule is currently stuck in legal limbo as a federal appellate court is considering a lawsuit brought by two conservative groups to strike the rule.

No Financial Justification: The letter comes just a day after a piece in the Harvard Law Forum for Corporate Governance highlighted a new academic paper concluding that "forced increases in racial diversity ... d[o] not have a significant effect on firm performance, valuation, or risk." For that reason, "increasing racial diversity may not lead to the substantial changes in traditional firm policies or performance that some advocates might expect." The findings echo those of earlier analyses, including that conducted by Strive, debunking the claim that board diversity leads to financial outperformance.

Green Bonds: New Label, Same Projects

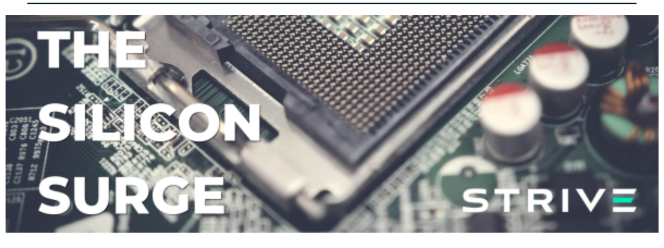
The proceeds of green bonds are supposed to fund new, innovative environmentally-friendly projects; much of the money is going to business as usual, a new study entitled "Green Bonds: New Label, Same Projects" finds.

The Mission: Green bonds have exploded in popularity, with over $3 trillion issued over the past two decades. But then what? Do the funds spur investments in renewables and other green projects? A pair of NYU business professors decided to find out.

What They Found:

- Non-Green Projects: Shockingly, 45% of proceeds from municipal green bonds and 30% of corporate green bonds went to refinancing existing debt.
- Shifting Ownership of Green Projects: Around 2-3% financed the issuer's purchase of an existing green project from another company. In that case, the project changed hands, but there was no net environmental benefit.
- Expanding Existing Projects: A significant chunk of green bond proceeds (about half for municipalities and two-thirds for companies) went to continuing or expanding the borrower's existing green projects. Per the authors, these projects are somewhat "additive" in helping the planet, but they're hardly the groundbreaking, innovative projects many investors think they're funding when they purchase green bonds.
- New Green Projects: Just a tiny fraction of proceeds (less than 2%) fund initiatives that are novel to the towns and companies launching them, despite the lofty promises sometimes used to advertise green bonds.

Why It Matters: Green bonds tend to offer significantly lower yields than their traditional counterparts. It's kind of the point. Companies can borrow more money more cheaply if they promise to use it to improve the planet; investors accept lower returns to help them out. But if recipients are using the money to conduct business as usual, ESG-oriented investors are getting a raw deal.



China's Uphill Chip Battle

In efforts to challenge the global semiconductor status quo, China has ramped up its investments to develop homegrown advanced lithography technology, a crucial component in producing cutting-edge chips. This push comes as the nation faces increasing restrictions on accessing high-end semiconductor manufacturing equipment from market leader ASML.

Shanghai Micro Electronics Equipment (SMEE), China's leading lithography equipment manufacturer, has progressed in its research program to develop chipmaking tools. However, due to tensions between the U.S. and China, SMEE has been on the U.S. Commerce Department's blacklist since 2022, causing it significant delays.

Despite these obstacles, the company aims to produce machines capable of etching circuits at the 28-nanometer node by year's end, with plans to achieve 14-nanometer capability within the next two years. While that sounds impressive, it's still far from replicating ASML's high-NA ultraviolet lithography machines, which can now produce chips at 3-nanometer nodes and below. The smaller the chip's circuits, the more powerful it is.

ASML holds a monopoly over advanced lithography technology. However, due to the trade war, ASML is prohibited from selling most of its machinery to China, placing it at a potential financial disadvantage since nearly 50% of its revenue comes from China.

While China's progress represents a step towards technological self-sufficiency, the road ahead is long and fraught with challenges. ASML's journey to its market dominance spans several decades, underscoring the monumental task facing Chinese manufacturers. China may be in for a harsh reality check as it confronts the true complexity of advanced chipmaking technology. It invested a staggering $37 billion in chipmaking equipment in 2023 alone, yet industry experts suggest more is needed.

As tensions rise, the race for semiconductor supremacy continues to heat up, with China's lithography ambitions at the forefront of this high-stakes geopolitical battle. The outcome will have far-reaching consequences for China, companies like ASML, and the global tech ecosystem.

Strive Racecar Takes the Track at Talladega

Congrats to AJ Allmendinger and Kaulig Racing for a strong finish at Talladega this weekend! And a huge thank you to all our supporters who visited Strive at the track and cheered for us at home!

While we may not have crossed the finish line first, we're still claiming victory: Our pro-shareholder message was on proud display, and we refuse to hit the brakes. For Strive and American capitalism, that's a much bigger win.

The Best of the Rest

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

- NYC climate week advocates urging global move to plant-based diets; skeptics highlight hypocrisy of asking ordinary Americans to sacrifice while elites continue to indulge.
- BlackRock states the obvious on China risk; acknowledges that Western companies should reassess their ties to China, even while continuing to urge investors to "overweight Chinese stocks."
- Toyota drops DEI policies following last week's backlash; community events will now focus on STEM activities and company will no longer participate in the Human Rights Campaign survey.
- Florida enjoys cheap, reliable energy by refusing to adopt new zero goals; state has "prioritiz[ed] natural gas over renewable energy" and rejected ESG policies adopted by other states.
- "ESG psuedo-science" gets debunked: new research shows that states like Texas and Oklahoma that enacted laws to combat financial-sector ESG activism have not faced increased borrowing costs as a result.

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.

Strive, 6555 Longshore St, Dublin, OH 43017, United States