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STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

August 6, 2024

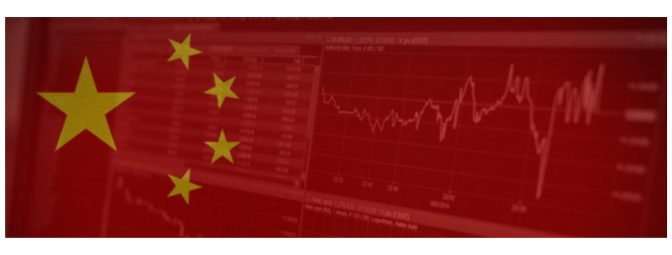
This Week: Strive CEO talks to Fox Business; State pension funds divesting from China; An Eye on Energy discusses carbon capture.

Strive CEO Matt Cole Makes Fox Business Appearance

Last week, Strive CEO Matt Cole appeared on Fox Business's *Mornings with Maria* to discuss the market news of the day, our recent Series B close, and how our mission resonates with investors. "What investors care about is making money, at the end of the day. Forget the woke stuff. Forget the ESG stuff. Forget the DEI stuff," he explained. "[Investors] want excellence. They want innovation. They want meritocracy. They want capitalism."

View his interview here.

State Pension Funds Divesting from China



Several state pension funds have pulled investments from China over geopolitical risks in the past year, Politico reports.

The States: In the past year, Indiana, Florida, Missouri, Kansas, and Oklahoma have announced new policies divesting from China. They join the Texas Teacher Retirement System and Pennsylvania Treasury, which both announced cuts in 2022, and the Federal Thrift Savings Plan, whose board unanimously voted to exclude China from its international benchmark in November.

What They're Saying:

- **Florida** cited concerns about "invest[ing] into a country that's not being totally transparent or hasn't the best interests of Floridians at heart,"
- **Oklahoma** wants "to protect taxpayer assets by ordering the development of divestment plans for those assets deemed at risk of compromise in the event of an Indo-Pacific conflict,"
- **Missouri** sees divestment as "a defensive measure," particularly if China invades Taiwan,
- **Kansas** also cited the risk of a conflict with Taiwan,
- **Indiana** seeks "to stand against the Communist Chinese Party and all the threats they pose to our nation."

China Risk Is Investment Risk: Strive recognizes that China risk is investment risk—albeit one that often flies under the radar. As geopolitical tensions rise, and China's economic woes persist, we believe these risks will continue to mount.

Read More:

- Strive's white paper on China risk
- Strive Corporate Governance EVP Justin Danhof's article in The Hill on how Strive engages with companies to address China risk.

Midcap Stocks Feeling ESG Pressure

ESG proponents set their sights on midcap stocks this proxy voting season, following years of pressuring America's largest companies to adopt their preferred social goals.

ESG At Large: In the past several years, ESG proponents have had overwhelming success in pressuring America's largest companies to adopt net zero goals, diversity targets, and more. Now, proponents have moved on to the next frontier: the next band of mid-sized publicly-traded companies, aka, midcaps.

The Tactic: ESG proponents often cite what large cap companies are doing as "best practices" that the midcaps should aspire to.

The Prey: Among the targeted midcap companies this year are:

- Wingstop, which faced a proposal to force the company to disclose its greenhouse gas emissions. The proposal managed to garner 52% support, despite management's opposition, in part because the activist argued that McDonald's and Taco Bell had already agreed to such disclosures.
- Dick's Sporting Goods, which opposed a proposal to release more diversity data to "bring DSG into line with virtually all S&P 100 companies," which all release detailed breakdowns of their employees by race and gender. Notably, the proponent relied on the now-debunked McKinsey report that claimed that diversity leads to greater returns; more recent research has put that myth to rest.
- Paramount Global, which faced a proposal asking the company to adopt and publicly release an artificial intelligence code of ethics.

The Concern: Midcap companies may be particularly vulnerable to the costs of ESG activism, as they don't have huge balance sheets that can absorb these wasteful costs as easily as some of their large-cap counterparts. While no company should be forced to pay an "ESG tax," smaller and mid-sized businesses may stand to suffer most.

U.S. Lawmakers Open Probe Into ESG Investors

Last week, the U.S. House Committee on the Judiciary demanded information and documents from more than 130 investors over their alleged collusion to force companies to adopt ESG goals and fight climate change, Reuters reports.

The Concern: In the demand letter, lawmakers cited concerns over their potential "collu[sion] with climate activists through initiatives like Climate Action 100+ to adopt left-wing environmental, social, and governance (ESG)-related goals, potentially in violation of U.S. antitrust law."

The Ask: Lawmakers seek information on the tactics the group is using to force companies to "[t]ake action to reduce greenhouse gas emissions across the[ir] value chain[s]."

The Targets: The letter was sent to more than 130 U.S.-based asset managers, wealth managers, retirement systems, and state pension funds, including:

- Goldman Sachs Asset Management
- Franklin Templeton Investments
- Breckinridge Capital Advisors
- California State Teachers' Retirement System, and
- New York State Common Retirement Fund

Why It Matters: Lawmakers are concerned because the alleged collusion could violate U.S. antitrust laws, as some officials have argued. As Federal Trade Commission Chair Lisa Kahn has explained, "ESG won't stop the FTC" because "[t]he antitrust laws don't permit us to turn a blind eye to an illegal deal just because the parties commit to some unrelated social benefit." But investors are monitoring the situation as well, particularly since ESG activism has been linked to lower returns.

The Carbon Capture Conundrum

Conversations about carbon capture are likely to increase significantly over the next year. Almost half of clean energy investments by the oil and natural gas industry in 2023 involved the merger and acquisition of energy companies focusing on Carbon Capture, Utilization, and Storage (CCUS).

CCUS is a suite of technologies that enables the mitigation of carbon emissions from significant plant sources, such as refineries and power plants. The 'U' part of CCUS is particularly important to the technology becoming cost-effective: after being transported, the CO2 can be *utilized* as feedstock to extract hydrocarbons or create products; otherwise, it's stored over a mile underground. North America has led the deployment of carbon capture with enhanced oil recovery to increase the ability of oil to flow to an oil well.

Despite the push from environmentalists, carbon capture projects still aren't meeting expectations. Numerous high-profile project failures, high costs, slow technological innovation, overreliance on government support, and regulatory bottlenecks have all contributed to the relatively flat deployment of carbon capture projects.

The CCUS market is growing. The oil and natural gas carbon capture markets expect annual growth of 15% to 38% between 2024 and 2032. Currently, they represent approximately $196 billion in investment opportunities globally.

For it to be successful, technology must be cost-effective, and a viable utilization option for the stored carbon dioxide must be available. The energy industry is collaborating with technology providers and research institutions to accelerate the deployment of post-combustion carbon capture. This technology remains in development, but advancing a non-aqueous solvent can make CCUS more cost-effective.

If the government wants to encourage energy markets to embrace carbon capture, it will have to focus on research to unleash innovation in the utilization aspect of the process.

Strive to Boeing: Stop Putting DEI Over Safety

There's a new pilot at Boeing, and we want to make sure he's charting a shareholder-first course. Last week, Strive Corporate Governance EVP Justin Danhof wrote to Boeing's newly appointed CEO to urge him to return the company's focus to safety and performance, rather than pursuing value-destroying social goals. Should he do so, we're optimistic Boeing will once again be king of the skies.

Read the full letter here.

The Best of the Rest

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

- Air New Zealand first major airline to ditch net zero goals; said it plans to retain its existing fleet longer than planned, rendering goal unachievable.
- New York's $260 billion pension fund pressures Micron to make union deal in latest effort to use its financial muscle to force companies to adopt social policies.
- Intel announces layoffs and suspends dividend following disappointing earnings; announcement comes less than three months after issuing its latest corporate responsibility report touting demographic workforce stats, renewable energy goals, and auditing suppliers for potential human rights violations.
- Chevron ditches California for Texas; "[w]e believe California has a number of policies that raise costs, that hurt consumers, that discourage investment and ultimately we think that's not good for the economy in California and for consumers," CEO Mike Wirth said.
- Former President Trump meets with cryptocurrency executives; reportedly discussed energy requirements of crypto and artificial intelligence, and potential for cryptocurrency sector to aid GDP growth.

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