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STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

January 14, 2025

This Week: Strive CEO Matt Cole joins John Stossel to discuss how to unleash economic growth; McDonald's rolls back DEI; An Eye on Energy greets the AI revolution.

Meritocracy over DEI—it’s a core principle of Strive and part of why Elon Musk’s Starlink outpaces government-led projects.

Watch Strive CEO Matt Cole, who recently joined John Stossel to discuss how the best thing the government can do to unleash growth and innovation is simply get out of the way.

Watch Here

McDonald's Rolls Back DEI Targets

McDonald's is dropping its DEI targets, Fox Business reported last week.

The Changes: In a memo sent to franchisees, employees, and suppliers, McDonald's announced a number of changes to its DEI program, including dropping its diversity targets for employees and suppliers.

Changes to McDonald’s DEI Program

	Old	New
Employment Quotas	35% BIPOC in US leadership 40% women in leadership	None
Supplier Quotas	25% diverse-owned suppliers	None
Supplier Pledge	Suppliers pledge to implement DEI Suppliers pledge to use race-based hiring	None
DEI Department	"Global DEI Team"	"Global Inclusion Team"
Surveys	Participate in HRC LGBTQ+ survey	No external surveys

Source: Strive Asset Management. Data from https://corporate.mcdonalds.com/corpmcd/our-stories/article/our-commitment-to-inclusion.html and the Wayback Machine.

Strive at the Fore: Strive has been at the forefront of pushing companies to drop DEI goals, with McDonald's as its first public target.

- In 2023, we wrote the company to share our concerns about their employment and supplier diversity targets.
- The *Wall Street Journal* highlighted our engagement.
- Within a month, McDonald's started making changes, quietly dropping ESG from parts of its website.
- Eighteen months later, and McDonald's is publicly dropping its DEI targets for good.

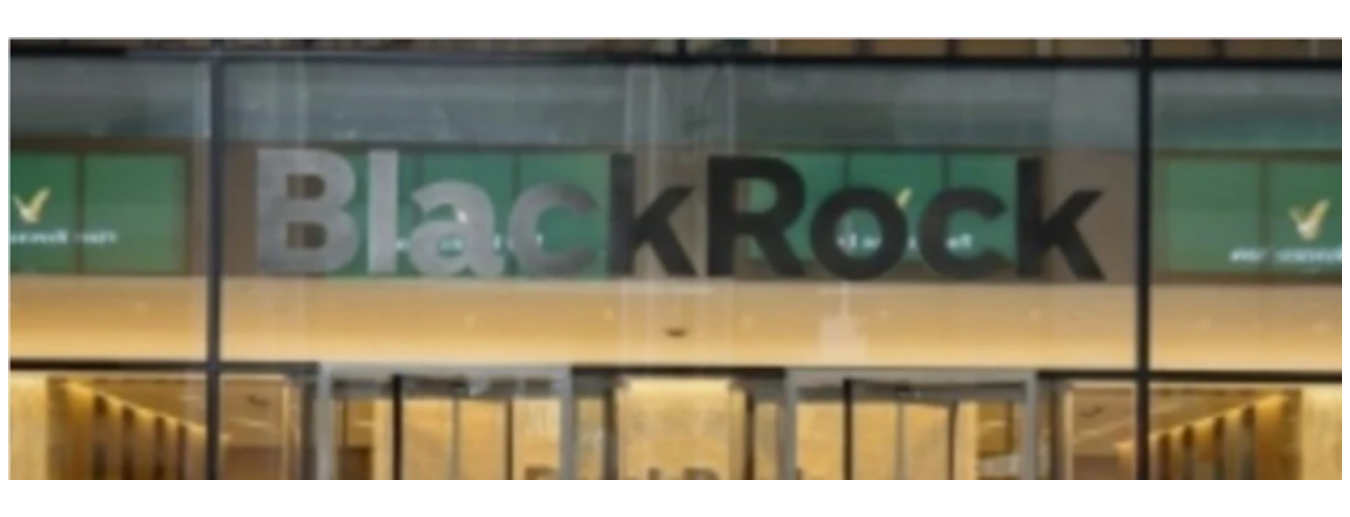
Pressure From All Sides: The success of meritocracy at McDonald's demonstrates the importance of pressure from all sides. While Strive provided input from a shareholder perspective, customers also called on the company to drop DEI, as did former employees who filed EEOC complaints alleging discrimination.

A Growing List: McDonald's joins a growing list of companies that have abandoned or scaled back their DEI initiatives, including Tractor Supply, Miller-Coors, John Deere, Harley Davidson, Ford, Toyota, and Walmart.

A Notable Move: McDonald's revisions are notable not only given the company's size, but its outsized influence on other companies via its supplier mandates. Under its previous program, even small and medium-sized businesses were forced to hire based on race and stand up their own DEI programs in order to do business with McDonald's; now, they can focus on their own business success as well.

Finally, pro-business shareholders and customers can agree: "I'm loving it."

BlackRock Leaves Net Zero Group



BlackRock has left the Net Zero Asset Managers, Reuters reported on Thursday.

BlackRock Heads For the Exits: Per Reuters, BlackRock sent a letter to clients last week explaining that it was leaving the Net Zero Asset Managers. The letter explains that BlackRock's "memberships in some of these organizations have caused confusion regarding BlackRock’s practices and subjected us to legal inquiries from various public officials"—a polite reference to, among other things, an antitrust lawsuit filed by eleven states in November seeking damages likely totaling into the hundreds of millions, if not billions, of dollars.

Or Is It?: Within the letter, however, BlackRock also emphasized that its "continued investment conviction [is] that the energy transition is a mega force" and that "how we manage [our clients'] portfolios" will "not change." And its website continues to tout that it employs "700+ global sustainable and transition specialists" focused on environmental goals. Thus, BlackRock's exit seems less like a departure from climate-focused investing, and more like a soft goodbye to the UN-backed groups that created antitrust concerns.

Remaining Hold Outs: Other large asset managers, including State Street and JP Morgan, told Reuters that they're sticking with the climate group. And others who have left also continue to pursue climate-change-focused investing on their own.

Strive's Take: While BlackRock claims it is exiting the group to avoid "confusion," its letter uses the same PR double-speak that sowed such confusion in the first place. ESG is not compatible with purely financially-focused investing; in our view, if BlackRock wants to avoid confusion, it needs to either admit that it is continuing to press environmental issues at its clients' expense or set aside its sustainability initiatives once and for all.

American Airlines Broke The Law With ESG Investing, Judge Finds

On Friday, a federal judge in Texas found American Airlines breached its duty of loyalty by focusing on ESG in its 401(k) plan, Bloomberg Law reports.

The Lawsuit: The lawsuit was brought by an American Airlines pilot who sued his employer for allowing BlackRock, American Airlines' asset manager, to focus on ESG considerations when investing in the company's retirement plan money. In the opinion, the court sided with the pilot, finding that American Airlines broke the law by allowing BlackRock to use pension fund money for ESG pursuits, rather than to maximize financial value alone.

A Scathing Rebuke of BlackRock: The court had harsh words for BlackRock, rejecting the asset manager's claim that it used ESG to help its clients make money (emphasis ours):

> Often times, BlackRock couched its ESG investing in language that superficially pledged an allegiance to economic interest. But **BlackRock never gave more than lip service to show *how* its actions were actually economically advantageous** to its clients. Absent a cognizable basis for claiming that certain ESG considerations capture material financial risks, slapping the label "financial interest" serves as mere pretext. BlackRock regularly employed rhetorical devices—such as the "long-term" modifier—to discuss some amorphous and unsupported financial benefits of an ESG factor in order to shift attention away from its non-pecuniary goal... Just because BlackRock says it is "financial" or "material" does not automatically mean that it is. **Using such labels is clever pretext**, particularly when dealing with an unproven and nebulous issue like climate change.

A Disloyal Act: The court found that American Airlines allowed BlackRock to mismanage its pension fund money, in part, because it was afraid to displease BlackRock, which was a large shareholder and held $400 million of the company's corporate debt. As the court explained:

> The most obvious explanation for Defendants' lack of accountability with respect to BlackRock is that Defendants approved of BlackRock's activities—be it because of the shared belief that ESG is a noble pursuit or because of the "circular" relationship with a large shareholder. Paying heed to either reason is disloyal to the Plan because such considerations are not "solely in the interest of the participants and beneficiaries."

Vanguard and State Street Also Part of an "Incestuous" Industry: While most of the opinion focused on BlackRock, the court noted that the pursuit of ESG was an industry-wide phenomenon, explaining that "three of the biggest investment managers—BlackRock, Vanguard, and State Street—have 'practices that are in line with one another.'" Indeed, the judge went so far as to describe the industry as "incestuous" and accusing "powerful repeat players" of "rig[ging] the standard of care to escape fiduciary liability."

What's Next: While the court found American Airlines liable, it has yet to assess damages. That comes next, with the parties' briefing due at the end of the month.

Constellation acquires gas giant Calpine to power AI

The nation’s largest generator of electricity from nuclear power is buying the largest generator of electricity from natural gas. On Friday, Constellation Energy’s stock (CEG) closed up 25% as it announced a $16.4 billion deal to acquire Calpine. The move signals that nuclear power alone can’t be built fast enough to meet data centers’ surging electricity demand from AI workloads. Companies are increasingly turning to natural gas.

Constellation kicked off a nuclear sector revival in September when it made a 20-year agreement to power Microsoft data centers by restarting a Three Mile Island reactor it had closed in 2019. Big Tech companies are willing to pay a premium to use nuclear power for clean, reliable electricity. The government’s appetite for nuclear energy is growing, too. In early January, Constellation announced over $1 billion in deals with over 13 agencies, the largest power purchase in government history.

But on the supply side, there’s only so much low-hanging fruit to be plucked. There are only a couple other large reactors to restart, and although companies like Alphabet and Amazon are making deals to develop small modular reactors, those won’t be ready for years.

Meanwhile, data center AI workloads will likely be even more electricity-hungry than projected. Open AI stunned the AI community recently with its new Chat GPT model called o3, which uses a new technique to deliver state-of-the-art performance in reasoning, making achievements previously thought to indicate human-level intelligence.

The old approach spent months training AI models to recognize patterns in reams of data then turned them loose to quickly generate patterns in response to user queries. This led to the criticism that models like Chat GPT were just “stochastic parrots” blindly spouting off words. But the new models think. Using patterns to generate possible answers is only the start; they *reason* about which ones are best.

That deliberation makes the new reasoning models a lot more accurate than the old pattern-matching ones, but it also makes them more energy-hungry. Under the old approach, which already used 10x the electricity of a Google search, the most energy-intensive phase was training the model. But now AI workloads are switching to be much more inference-heavy, with computations being performed to handcraft bespoke answers to each question. There’s not enough electricity to go around.

Thus Constellation’s turn to natural gas. Nuclear power and natural gas will make a formidable combination to supply tech companies' growing AI needs. Like Constellation’s Microsoft deal, this feels like the beginning of a trend.

Corporate America Wakes Up To China Risk

Since Strive's inception, we've warned both investors and corporate America that China risk is investment risk, and to prepare accordingly. Now, companies are beginning to heed the call, but a long road lies ahead.

To learn about what companies are doing to mitigate China risk, and how Strive has led the charge, read Strive Director of Corporate Governance Sarah Rehberg's new piece in Real Clear Markets below.

Read Here

The Best of The Rest

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

- Macro investor Jordi Visser shares his bullish view on Bitcoin: "I think four years from now we'll go from $100,000 to $700,000."
- ESG holds steady in executive compensation plans; after sharp uptick from 2021, 77% of S&P 500 companies now incorporate some kind of ESG goal.
- U.S. expands list of Chinese companies on black list; move may accelerate economic decoupling efforts.
- Nearly a quarter of viewers didn't watch a Disney movie over politics, new study finds.
- Shell's renewable division expected to take $600 million Q4 loss as "either unproven technologies or unprofitable investments are making progress difficult."
- Amazon may be dialing back some DEI initiatives; announcement so far is light on the details.
- “People look at bitcoin as a better version of gold, and I agree with that,” Mark Cuban tells CNBC.
- Global semiconductor sales increase 20% year-over-year, with November marking an all-time monthly high.
- SEC forces John Deere to hold shareholder vote on DEI; ESG activists targeted the company to reinstitute DEI initiatives after the company changed to a pro-merit approach last summer.

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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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