View in browser

STRIVE

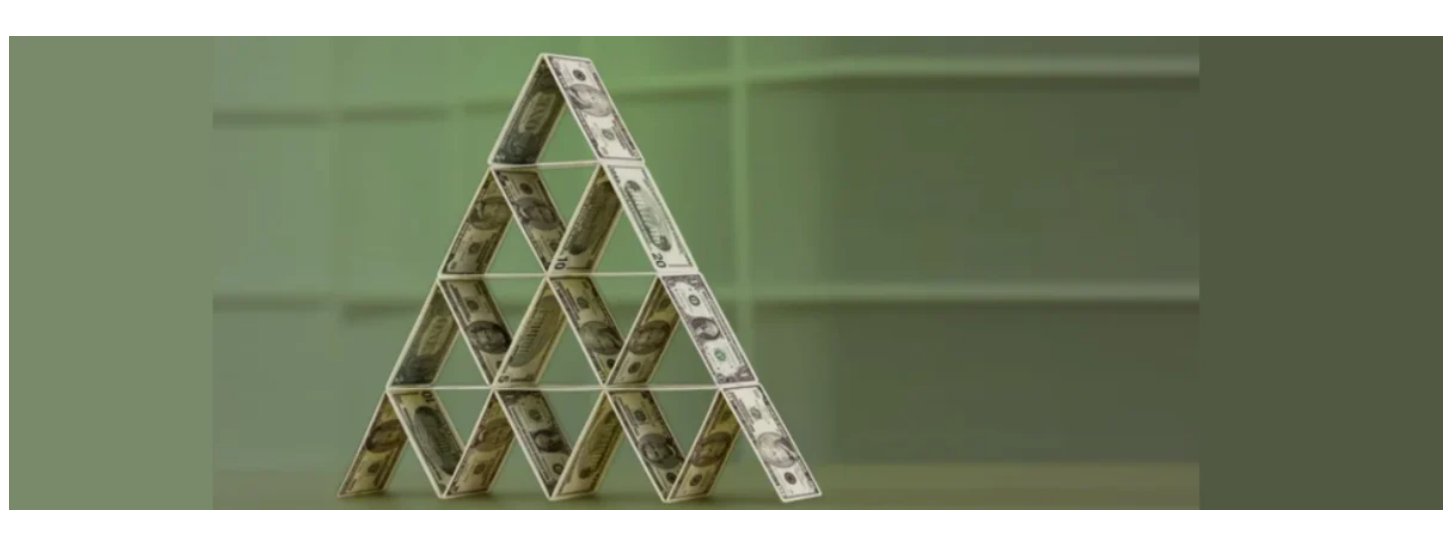
The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

January 7, 2025

This Week: Major banks leave climate alliance; Glass Lewis pushes labor rights; The Bitcoin Brief looks at Bitcoin bonds.

Citi, BoA, Morgan Stanley Leave Climate Group



Citi, Bank of America, and Morgan Stanley have all left the Net Zero Banking Alliance, Bloomberg reported last week.

A Shaky Alliance: The Net Zero Banking Alliance is a UN-backed organization whose 142 members pledge to align their lending, investment, and banking activities with decarbonization goals, including net zero emissions by 2050. But the alliance has seen several recent departures, including Wells Fargo and Goldman Sach's exit last month.

Mounting Legal Risks: The exodus comes as the organization has faced increasing scrutiny from regulators. Last year, twelve states asked members for information regarding their efforts to impose net zero goals on their agricultural portfolios. And in October 2022, fourteen attorney generals probed the organization's members over their lending to fossil fuel companies. The departures also come as BlackRock, State Street, and Vanguard face a lawsuit over their participation in similar climate-focused groups.

A Continued Commitment to Net Zero: While the banks have left the organization, they haven't necessarily left their climate commitments behind. Morgan Stanley, for instance, insisted that its "commitment to net-zero remains unchanged." And the Net Zero Banking Alliance's parent organization, the Global Financial Alliance for Net Zero, has said that it will allow the banks to remain members and draw from their guidance even if they aren't part of a specific net zero subgroup.

JP Morgan Put To The Test: While most of the remaining members of NZBA are European, Latin American, and Asian Pacific banks, there's one notable exception: JP Morgan. The world's largest bank has long supported net zero policies, with its CEO Jamie Dimon being a vocal proponent. But now that most American banks have flown the coup, JP Morgan's commitment to these policies will soon be put to the test.

Glass Lewis Pushes For Labor Rights

Proxy advisor Glass Lewis is pushing companies to bend the knee to labor rights activists, per a new piece in the Harvard Law Forum for Corporate Governance from the company's ESG Engagement Manager.

Glass Lewis's Labor Activism: Per the piece, Glass Lewis "steers engagements conducted on behalf of investor clients to [urge companies to] focus on core labor issues, such as wage fairness, freedom of association and collective bargaining rights ... and ensuring diversity in leadership roles."

"A Social License to Operate": While Glass Lewis makes the bare assertion that companies that support unionization increase their own long-term value, economic research suggests otherwise. And ultimately, even Glass Lewis admits it is not purely trying to help companies succeed financially. Instead, Glass Lewis warns that "failure to [adopt pro-labor practices] could threaten a company's social license to operate," echoing a line from BlackRock CEO Larry Fink's infamous ESG manifesto.

Delta in the Crosshairs: Glass Lewis touts its engagement with Delta Airlines as a case study. In 2024, labor rights activists criticized the airline for, among other things, hosting a website that provided information about Delta's current pay and benefits, as well as the potential costs of unionization. These critics submitted a shareholder proposal asking the company to take the website down and to stop resisting unionization efforts, despite the fact that Delta's management believed the union was spreading false information. Nearly three-quarters of Delta's shareholders rejected the proposal. But Glass Lewis refuses to let up, emphasizing that it has a call scheduled with the company to continue to pressure it to cave to unionization.

A Conflict of Interest?: Glass Lewis's ESG engagement service highlights not only the continued pressure that companies face to pursue social goals, but also the deep conflicts of interest that exist in the ESG/proxy advisory ecosystem. Consider the various roles that Glass Lewis plays:

- Through its ESG engagement service, Glass Lewis is paid by special interest investors to lobby corporate America to adopt ESG goals.
- But Glass Lewis also controls a substantial portion of the proxy advisory market, through which it makes enormously influential recommendations on how investors should vote on shareholder resolutions, executive pay packages, board nominees and more.

That means that when Glass Lewis calls on corporate America to adopt a particular social goal, it is backed by the power to potentially slash the CEO's pay or oust the board. Companies know this. So do Glass Lewis's clients.

Indeed, Glass Lewis advertises that its engagement team can make a greater impact on forcing corporate change than investors themselves. That shouldn't be the case.

Strive's Take: In our view, asset managers should act solely to enrich their clients; unfortunately today, many financial intermediaries seek only to enrich themselves, often by pushing social issues at shareholder's expense.

New Study Links Green Bonds To Greenwashing

For many companies, green bonds may be a vehicle for greenwashing, new academic research finds.

The Study: Researchers looked at thousands of companies from 2013 to 2023 to see whether issuing green bonds—the proceeds of which are supposed to go towards financing climate-friendly projects—led to lower carbon emissions.

A Surprising Result: Companies that issued green bonds alongside conventional bonds tended to have *higher* carbon emissions intensities than companies that issued conventional bonds alone.

In Their Own Words:

> [Our] analysis revealed no significant impact on greenhouse gas emissions from the issuance of either green bonds or conventional bonds, even after the introduction of carbon net-zero emission policies. . . However, a more detailed analysis throughout this paper reveals that ... entities issuing both green and conventional bonds may engage in behaviours contrary to environmental protection under the guise of green bonds, therefore justifiably considered as greenwashing.

A Potential Caveat: The authors did find that companies that *only* issued green bonds had the lowest carbon emissions. But that makes sense: Those all-green-bond companies represented only a tiny fraction of the total number of companies that issued green bonds, and so are likely companies that are super focused on environmental concerns.

Why It Matters: Green bonds allow companies to raise money more cheaply by promising to use the proceeds to improve their environmental footprint. By definition, that means that investors are agreeing to earn less. But if most green bond proceeds are not leading to lower emissions, than it's not clear why investors should accept less than free market returns.

Bitcoin Bonds Gaining Traction

As Bitcoin becomes integrated with traditional capital markets, investors are turning to a new way to get upside exposure to the asset class while managing risk: Bitcoin bonds.

Convertible bonds have long been used by sophisticated investors to provide upside participation, downside protection, and income. They start out as bonds: the company promises the buyer they'll get their full investment back at maturity, plus interest along the way. But the bonds have an embedded call option giving the holder the right to convert them into shares if the underlying stock reaches a certain price.

So as the stock rises to that price, the convertible bond starts appreciating more like equity shares. If the stock drops, the convertible's principal is protected by the bond. Like regular corporate bonds, the primary risk is simply that the company might not have money to pay back the bond: credit risk.

What's new is that software company MicroStrategy (MSTR) reinvented itself as a Bitcoin holding company and started issuing convertible bonds, using the proceeds to buy Bitcoin. Since MicroStrategy's shares are directly tied to the value of Bitcoin and the company uses the proceeds from its convertible bonds to buy Bitcoin, we view these securities as Bitcoin bonds.

Institutional investors have shown strong demand, with insurance giant Allianz buying hundreds of millions' worth of MSTR convertible bonds. Demand for these offerings has been so high that investors accepted a 0% interest rate in order to get upside equity participation with downside protection associated with bonds.

Other companies with substantial Bitcoin exposure are now following in MicroStrategy's footsteps. Historically, Bitcoin miners have quickly sold most of their Bitcoin. But after its recent surge—and after seeing MicroStrategy's success—leading miners like Marathon Digital and Riot Platforms are holding onto more of their Bitcoins and issuing MicroStrategy-style convertible bonds to scoop up even more. The convertible craze has swept the Bitcoin mining sector, with others like Core Scientific, CleanSpark, TeraWulf, and IREN issuing their own variations on convertible bonds, although they have yet to use the proceeds to buy more Bitcoin.

Bitcoin bonds offer risk-conscious investors a way to bring Bitcoin exposure into their portfolio while managing some of the downside risk. If Bitcoin goes up, the convertible bonds will generally go up too. If Bitcoin suffers large drawdowns like it has in the past, the investor's principal is protected by the promise they can receive it all back at the bond's maturity.

Investors interested in these unsecured products should consider the creditworthiness of these issuers to cover interest payments, if any, and repay their convertible bonds' principal even in an extended Bitcoin downturn, given their various business models. For instance, MicroStrategy's underlying business analytics software operations give it a revenue stream independent of Bitcoin, while most Bitcoin miners gain revenue only from selling Bitcoin. That means MicroStrategy's mining imitators must take extra care to maintain a financial cushion allowing them to cover their bond obligations even in a Bitcoin bear market.

All investments come with risk, and Bitcoin bonds are no different. But they do offer a way to capture much of Bitcoin's upside with some protection on the downside. We believe the size of the Bitcoin bond market will continue to grow as a compelling way for investors to gain market exposure to the emerging Bitcoin economy.

The Best of The Rest

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

- Nearly half of college students oppose mandatory DEI courses, new poll finds, demonstrating how divisive DEI has become even among Gen Z.
- Swiss Central Bank faces calls to hold Bitcoin in strategic reserve; the initiative published by the Swiss federal chancellery proposes changing the law to make the country hold part of its reserves in bitcoin and gold.
- China touts environmental benefits of megadam project even as critics warn it may ignite geopolitical tensions and create water shortages for India and other South Asian neighbors.
- Wyoming introduces bill to bar ESG-promoting asset managers from managing state funds; bill would also protect state funds from third-party proxy advisors.
- The Science Based Targets initiative is on the brink of collapse after a year of "infighting over the role of carbon credits, public rebuke from key backers and the departure of its chief executive."
- Elon Musk appeals pay decision to Delaware high court following judge's second rejection of pay package.
- Kia pulls its sponsorship of LGBTQ+ program aimed at children following consumer backlash.
- Only 2-3% of companies currently comply with all TCFD climate reporting standards despite the fact that California's disclosure rules require compliance with TCFD or comparable standard beginning this year.

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.

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.

Full disclosures and terms of use here.