STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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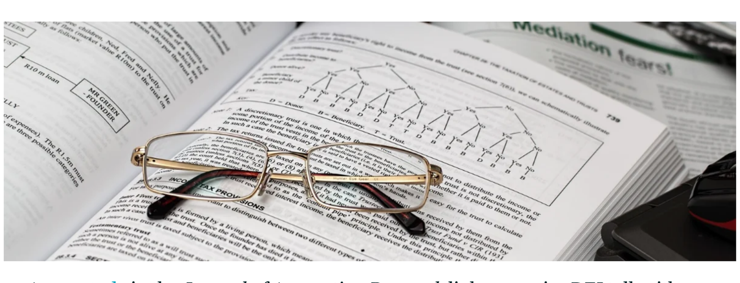
This Week: Study links excessive DEI talk with lower returns; universities resist calls to divest from Israeli; the Silicon Surge goes to India.

Study Links Excessive DEI Talk With Lower Returns



A new study in the *Journal of Accounting Research* links excessive DEI talk with worse financial results, Forbes reported last week.

The study: The study looked at a large sample of U.S. publicly-traded companies to determine whether companies that talked excessively about their DEI practices relative to their actual diversity had better or worse financial outcomes than those that did not.

The results: The researchers found that excessive DEI talk led to higher ESG scores and attracted more capital from ESG-focused institutional investors, but was linked with decreased financial performance. As the researchers conclude:

> These findings suggest large, well-established firms experiencing negative profits and returns may use diversity discussion to shift the focus away from their worsening financial condition. By contrast, smaller, more profitable firms likely have much less incentive to shift the narrative away from their superior financial performance.

The lesson: The study is the latest in a growing body of research showing that ESG-based investing often leads to reduced returns. It also provides a lesson for companies themselves: emphasize your DEI efforts at your own peril, particularly as investors begin to catch on.

Universities Resist Calls To Divest From Israeli-Linked Companies

Last week, we talked about protests at Google, whose employees called for the company to drop contracts with Israel. Now, universities are facing similar calls from student protestors to divest from Israeli-linked companies, the Financial Times reported last week.

The protests: For the past several weeks, pro-Palestinian students have been protesting at Columbia, Harvard, UCLA, and other campuses across the nation. One of their few concrete demands is for their university endowments to divest from companies that supply arms and equipment to the Israeli military.

Universities holding firm: Per the Financial Times, not a single university has agreed to divest from Israeli companies in response to the protests.

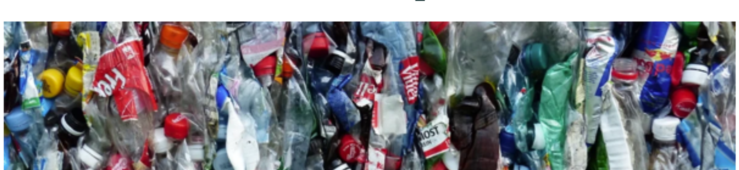
What they're saying:

- Vanderbilt's President: "Our investment committee has a clear policy not to divest for political reasons. It is inconsistent with our values to engage in boycotting specific entities or countries. That would violate our institutional neutrality."
- Columbia's President: Explained that the University reviewed student demands through its Advisory Committee for Socially Responsible Investing, but pledged that "the university will not divest from Israel."
- Harvard Professor: Argued the divestment calls reflect "small-bore thinking, useless because others would replace any withdrawn investment, and also intellectually timid because they weren't engaging on the big ideas of how to solve the conflict."
- Brown University: Agreed to hold a board vote to placate protestors, but reassured donors no divestment would take place. "The university has not endorsed the divestment proposal," a University spokesman said. "Whether it's for or against divestment, the vote will bring clarity to an issue that is of longstanding interest to many members of our community."

Legal cover: Where applicable, universities are also citing recent state-level legislation disallowing ESG investing when explaining why they're maintaining their investments.

A costly decision: Politically-driven divestments are often costly in the sense that investors miss out on potential returns. But here, the costs may be even higher, as donors have threatened to pull donations should universities decide to divest.

Plastics Pollution Grabs Corporate Attention



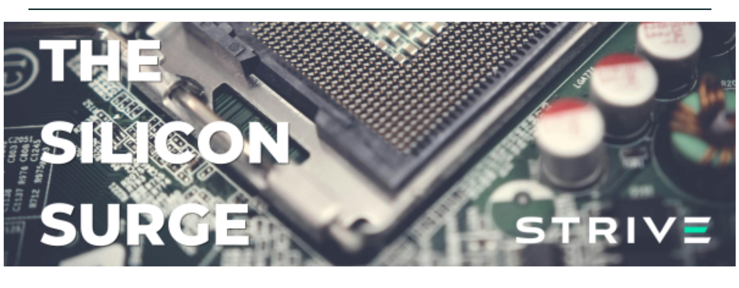
Plastics pollution is taking center stage at several companies' annual meetings this Spring, Responsible Investors reported last week.

The issue: The World Economic Forum claims 8 million tons of plastic waste is released into the ocean each year, harming ocean life, polluting our planet, and driving global warming. Activist shareholders are calling on corporate America to reduce that number. But recycling, they claim, is not enough. They insist that companies must reduce the amount of plastic they use and take financial responsibility for plastics used in their products and businesses.

A new tax: Essentially, advocates seek a new, mandatory corporate tax for plastics use. Typically, businesses resist new taxes. But the plastic reduction lobbyists have somehow managed to get some corporations on board. Walmart, Pepsi, Coca-Cola, H&M, Nestle and several others have all endorsed the "Extended Producer Responsibility" position paper, advocating for a tax on their own businesses.

A peak behind closed doors: While activists are pressing hard for companies to cut plastics, very few proposals will be put to a shareholder vote. The reason? Most companies are folding to the pressure. "Green Century is on track to withdraw all nine of the plastics-related shareholder proposals filed by the manager this year after the target firms—which include toy manufacturers, hotels, and grocers—made commitments to measure and/or reduce plastic use."

ESG asset managers to blame: The UN Principles for Responsible Investing has spoken out about plastics use, and advises investors on how to "engage at the corporate and policy levels," and a different UN environmental group has cajoled banks into signing a pledge to take their customers' plastics use into account when making lending decisions. Big name asset managers are also on board, including Morgan Stanley, UBS, and Invesco, which all supported a virgin plastics reduction measure last year at Dow.



India tries to become a player in semiconductors

With its wealth of manufacturing talent and competitive labor costs, India is attracting chip companies and is poised to become the next global design hub. While U.S. companies design many chips, most are manufactured overseas, mainly in Taiwan. Due to the escalating risk of a Chinese takeover, businesses are expanding to other countries to diversify supply chains.

Qualcomm is bullish on India. The firm, known for its processors used in Android smartphones and other telecommunication products, is designing most of its chips from start to finish in the region. It also opened multiple new R&D centers, hoping to continue investing in the design phase.

Making semiconductors is not for beginners. Designing chips is one of the most difficult phases of the semiconductor value chain. It's highly complex, taking years of research and hundreds of millions of dollars of investments before being ready to produce the chip's architecture and system and plan how individual circuits will lay out.

The Indian government is providing more than 100 colleges and universities with electronic design automation (EDA) tools from large companies including Siemens EDA, Synopsys, and Cadence, supporting efforts to recruit and train talent in the field. India also announced a substantial $10 billion incentive towards semiconductor production in 2023.

Micron is taking advantage of this assistance. As one of the first semiconductor companies to do business in India, it announced that its first Made in India memory chips will launch in 2025. The chips are mainly for data centers and smartphones.

Despite government funding, some are skeptical about whether the South Asian country will succeed in becoming a semiconductor powerhouse. Indian import taxes are higher than average, with a whopping 10% for information and communication technology materials. The high tariff on tech inputs raises manufacturing costs. If India wants to attract more foreign investments, it must lower taxes to keep chipmaking competitive with regions like Singapore and Vietnam.

It's also not a developed country—and won't be for another 20 years. Even though the government and foreign investors believe in India's potential, its infrastructure is behind its competitors. Building semiconductor plants requires extensive amounts of electricity, water, and raw materials, which is challenging due to the ongoing power crisis and droughts.

Only time will tell if India turns into a destination for semiconductors, but its efforts illustrate how virtually every major country is now trying to join the chip race.

Strive Discussed At Fifth Circuit Argument In *Texas vs SEC*

Last week, Strive was discussed during oral arguments in a lawsuit Texas brought against the Securities and Exchange Commission.

In the suit, Texas challenges a new SEC regulation requiring mutual funds to disclose not only how they voted on shareholder proposals (which they are already required to do), but to categorize those votes into certain ESG buckets, like "DEI" and "climate." Texas has argued that these expanded disclosures are arbitrary and capricious, because their purpose is not to help investors, but to force mutual fund managers "to either increase the number of votes taken that would further the radical political agenda of the Biden Administration or face enhanced public scrutiny."

During oral argument, one of the judges questioned whether the rule was truly one-sided, since firms that reject ESG investing principles—like Strive—might also be interested in having easier access to information on which mutual funds voted in favor of ESG proposals. "Vivek Ramaswamy has, I think, ... a fund, and I assume he would enjoy having this information a little bit more available," the judge posited.

In truth, our position is a bit more nuanced. While our funds are unabashedly focused on maximizing financial returns, rather than pursuing ESG goals, we share Texas's concerns that the categories are not neutral, that compliance is costly and that the regulation is designed to legitimize the practice of turning annual corporate meetings into political stomping grounds. But we're glad to see that our message is being heard as far away as Texas, and that states are taking action to protect returns focused investors from what they view as burdensome and unnecessary new regulations.

The Court will likely issue its ruling in the coming months.

Strive Backs Ancora's Board Nominees at Norfolk Southern

Earlier this week, Strive Head of Corporate Governance Justin Danhof wrote a letter to fellow shareholders supporting Ancora's nominees for seven board seats at Norfolk Southern, the troubled railroad company responsible for the 2023 derailment in East Palestine, Ohio.

As a fiduciary for our clients, we're always looking for ways to maximize financial value. And we ask the companies we're invested in to do the same. Unfortunately, Norfolk Southern hasn't been doing that. Instead, its current board has frequently placed DEI ahead of safety, to the detriment of its customers and shareholders alike. We're therefore excited to endorse Ancora's nominees, who we believe represent the company's best chance to get back on track.

Read our full letter here.

Coca-Cola

Voting Spotlight: Coca-Cola

Each week during proxy voting season, Strive will highlight one interesting vote from a recent company's annual meeting.

Last week, Strive voted against a proposal at Coca-Cola asking the company to issue a report on the risks caused by an alleged decline in quality medical care. Specifically, the proponents lament that Coca-Cola is headquartered in Georgia, which they believe has wrongly limited access to certain medical procedures, including "gender-affirming care." To support this claim, proponents cite a New York Times article reporting that Georgia has passed laws limiting transgender medical interventions for minors. They then claim, without evidence, that this legislation may lead to "reduced employee contribution, state-specific challenges in recruiting and retaining employees, and higher healthcare costs for employees and the Company."

Coca-Cola urged shareholder to vote against the report, calling it "speculative" and "unsupported." Coca-Cola further explained that all healthcare decisions are made by doctors and insurers, not by the company, and that it offers generous health insurance benefits to all of its employees.

While it's not clear whether the proponents were hoping to shame Coca-Cola, convince it to relocate, or pressure it to lobby lawmakers for a change, the proposal was clearly driven by ideological, not financial, concerns. Because we saw no connection between the proposal and the creation of long-term financial value for shareholders, we voted against it.

The Best of the Rest

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

- Florida passes law preventing banks from discriminating against customers based on religious, social or political beliefs.
- Starbucks opened new store in China every 20-30 minutes in 2023; "In a country famous for ghost cities and overcapacity in everything from solar panels to cement, is that irrational?" the Wall Street Journal asks.
- Climate Action 100+ departees support many climate measures; overall support for key climate shareholder proposals was around 45%.
- Defense contractors face shareholder proposals on climate change; proposals ask companies to set emissions reduction targets aligned with Paris Agreement goals.
- U.S. sustainable funds see $8 billion net outflows in Q1, the largest exodus yet.

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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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