SUSTAINVEST
ASSET MANAGEMENT, LLC

2ND QUARTER 2016

2nd Quarter Inside the Numbers

S&P 500	1.90%
DIIA	1.40%
Nasdaq	-0.60%
Russell 2000	3.70%
Barclays US Bond Index	1.89%
Euro Stoxx 50	-7.15%
Oil	22.00%
Gold	8.04%
Euro vs $	-2.02%

Inside

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YOUR INVESTMENTS. YOUR PLANET. YOUR CHOICE.

Economy

The first half of 2016 has come and gone and it sure hasn't been boring. Well, that all depends on what asset classes we are talking about. This year has really helped us realize how important being diversified across asset classes can be. It also tells us to keep a long term perspective when CNBC flashes Brexit news 24/7. It was a winning quarter for the Dow and the S&P 500, up 1.4% and 1.9%. For the first half of the year, the indexes are up 2.9% and 2.7%, respectively. The Nasdaq, on the other hand, is down for the last three months -- off 0.6% -- and in a 3.3% hole for 2016. It's clear to see that gold (up 25% YTD) has become a solid hedge due to volatility in the dollar and the general sense that investors are looking for safe havens heading into the 2nd half. U.S.

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Companies Committed

$500 Workchair! Wait, it's a Herman Miller...

Ever sat in a Herman Miller (MLHR) chair? If so, then you are fortunate enough to have felt what truly comfortable feels like. This $2 billion Michigan-based furniture company seems to have nailed the niche market of helping desk employees work more comfortably. Herman Miller is credited with the invention of the office cubicle (originally known as the "Action Office II"). The top five players in this market are Steelcase (17%), HNI Corp. (16%), **Herman Miller** (12%), Haworth (8%) and Knoll (7%), for a combined market share of 60%. The company pays a 1.90% dividend and its current PE is at 15. The U.S. Federal government was MLHR's single largest customer at 5.0% of sales. Revenues have been slowly increasing with more exposure to overseas markets and employment levels rising. Year to date the stock is down about 2%. With a beta of 1.50, it moves a bit more than the S&P.

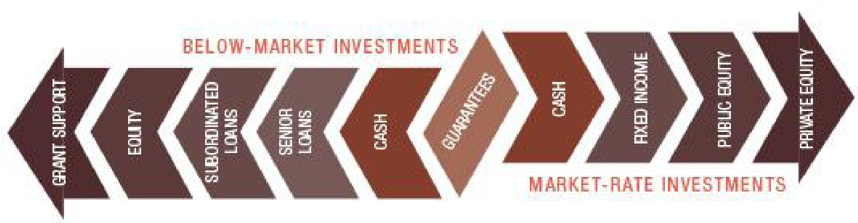
Another caveat to the chair maker is their dedication to sustainability. The

company has once again earned a spot on the Dow Jones Sustainability Index (DJSI) for the twelfth consecutive year and is the only contract furniture company recognized globally for its corporate sustainability leadership. MLHR has set significant sustainability targets for the year 2020. These targets include zero landfill, zero hazardous waste generation, zero air emissions (VOC), zero process water use, 100 percent green electrical energy use and all company buildings constructed to a minimum LEED Silver certification. Their Triple Bottom Line business philosophy is one that seems to fit the bill: Earn a profit, protect the environment and improve your community and world through social issue awareness. *(Sustainvest does not have a position in the stock).*

Education

Family Foundations' Steps to Integrating SRI

With the news on large institutions like Stanford University making the decision to divest of fossil fuel companies along with several coal mining companies filing Chapter 11, family foundations are now next in line to consider the shift. Even a 3 to 5% allocation to dirty fuel can have some serious ramifications on an endowment and its longevity. Investment committee members of foundations are starting to hear from board members about what can be done to hedge against stranded assets. With younger family members now taking a more active role in succession planning, one key question that is brought up by millennial is "how can we integrate sustainable investing into our foundation's investment policy and take the steps necessary to do so". With most foundations, it's all about baby steps. Impact investment opportunities exist across asset classes (pic below), from cash to fixed income to public equities to private equity, venture capital and real assets. Each one of these asset classes brings with it its own risks and returns. Clearly, public equities (under the title of Mission Related Investments or MRIs) bring to the table more transparency as opposed to funding a solar start up. Hiring an advisor focused on sustainable investing could surely help the process go much more smoothly.



1. Months 1 to 3: Dependent on the risk profile of the foundation, a first step may be to look at their public equity exposure to fossil fuel equities. Have you considered divesting of fossil fuel companies? Are you utilizing ESG screens with your stock or mutual fund positions? At this point you may want to consider allocating a portion of the portfolio with a sustainable focused advisor as the active manager. For example, some foundations take a portion such as 20% of the endowment and carve this out as the sustainably focused portion.

2. Months 3-6: Once the Foundation becomes comfortable with this step, then the next conversation could be to implement ESG screens within fixed income positions. Foundations with a focus on the environment that own corporate bonds of Monsanto and Phillip Morris are clearly misaligned with the mission of the organization.

3. Months 6-12: A next step could be to implement a % into impact investing directing capital towards program related investments. Examples of impact investing may include Calvert Foundation Social Notes or RSF Social Investment Funds. PRIs are generally structured for high social return and below-market financial returns, whereas MRIs are generally structured to generate significant expected financial returns and some social returns. Starting off with a 1 to 3% allocation towards impact can be a logical first step into this asset class.

Setting out an internal action plan policy with a 1 year timeline as such could guide a foundation to become 100% impact/ sustainable making the organization's dollars fully integrated with the values of its mission.

"The greatest threat to our planet is the belief that someone else will save it"
- Robert Swan

1% FOR THE PLANET
MEMBER

Sustainvest Joins 1% for the Planet!

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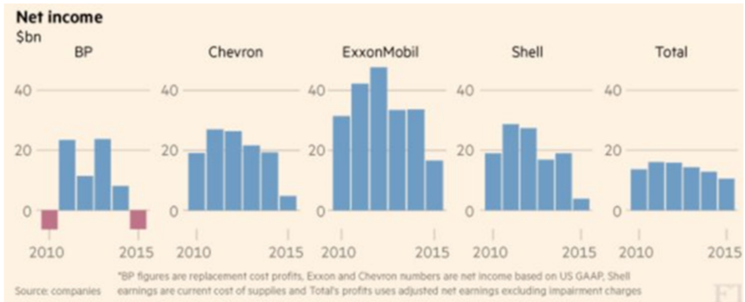
Large Cap dividend paying stocks should reap some benefit from the news as investors flock away from International markets and also considering the 10 year Treasury is paying a measly 1.5%. Brexit's effect on upcoming earnings of these firms is yet to be determined and could play into these announcements. It has become clear that value pickers may start to emerge in a market where growth is becoming harder to find. Just ask Apple who has lost about 25% in stock value over the past 1 year.



BREXIT

The Ol' Brits are at it again. On Friday, June 24th, Great Britain voted on exiting the European Union. Though this is a political event, we all know how political events can rattle stock markets. Markets across the globe were negatively affected as this now brings uncertainty to the EU establishment. Financial companies and big banks fell double the general markets considering what this move may do to lenders to Europe and the UK. At the same time, this vote has all but eliminated any chance of an interest rate boost this year, another hit on the chin for the financial sector. US companies who derive large amounts of revenue from the UK and Europe for that matter will have some headwinds to face. Interestingly enough, the UK should eventually see increased exports along with increased revenues from Yankees traveling through, though this most likely won't be seen for quite some time.

Big Oil Revenues Collapsing Before Our Eyes

When looking at the profit and loss statements of big oil companies one would think that the numbers show an industry reminiscent of a start-up. Many of these oil companies have lost half of their revenues in as little as 2 or 3 years. In September 2012, ExxonMobil reported revenue of $488 billion. It has lost nearly $200 billion in revenue in three years. Chevron was making about $230 billion in 2013. In 2015 they were making $130 billion. Any wall street Joe can see that if a company making widgets loses half their annual revenue, this is not a good sign. Perhaps oil's distant cousin, Coal, could be a litmus test. In the past year the 2 largest coal producers, Peabody Energy (BTU) and Arch Coal (ACI) filed for bankruptcy. Sixty oil producers have declared bankruptcy since 2014 in the US. Now states like Texas face an even larger dilemma. They need to plug the 10,000+ abandoned wells at a price tag of around $165 million. Good luck.

The remaining question is do the big energy companies have the cash on hand to remain solvent during downturns like these and is it sound investing allocating dollars towards companies that are so reliant on one caveat, the price of oil? Of course being a sustainable investor committed to fossil fuel divestment, these firms do not come into client portfolios.

Overall

Investors should plan to stick with their asset allocations, but use volatility to make the occasional cheap buy. The ramifications of Brexit still are in that grey area so we may continue to see opportunities well into the summer months. Keep in mind, the US will soon be dealing with the November election in which the 2 candidates bring with them some baggage. This could play into our markets soon enough. Utilities have seen a sharp uptick as this year's best performer so far, so taking gains on this rather dull sector may be tactical headed into 2017. Summer doldrums generally equate to a "slow moving" market and with Brexit thrown into the mix, continuing to invest with your risk profile and timeline in check will be more important than ever. We will continue an allocation into gold along with a cash position, all dependent on each client's profile.

Shareholder Activism

BioMarin Proposal Gets 30% Yes Votes

On June 6th, Sustainvest attended the annual shareholder meeting of Novato-based pharmaceutical company, BioMarin. In attendance were the CEO and executives along with the board of directors and shareholders. Sustainvest founder Dale Wannen was given 5 minutes to speak on behalf of a shareholder proposal asking BioMarin to implement a sustainability report. They currently do not offer a report, at least publicly to shareholders.

The proposal received 37,388,020 votes in favor of (this is the amount of shares that voted YES on their proxy statement saying this is important to them). That number equates to about 30% of shareholders. This amount should awaken the executives to how important the topic is to shareholders. It should also bring notice

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to board members that they hold a fiduciary duty to their shareholders to be aware of potential risks in not implementing a report that such a large number of shareholder are in favor of. As of yet, Sustainvest did not receive any indication from BMRN they were considering a report.

CEO Compensation vs Average Employee

The SEC adopted a final rule that requires a public company to disclose the ratio of the compensation of its (CEO) to the median compensation of its employees. The new rule, mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, provides companies with flexibility in calculating this pay ratio, and helps inform shareholders when voting on "say on pay."

The new rule will provide shareholders with information they can use to evaluate a CEO's compensation, and will require disclosure of the pay ratio in registration statements, proxy and information statements, and annual reports that call for executive compensation disclosure. More than 3000 companies will be required to provide disclosure of their pay ratios for their first fiscal year beginning on or after Jan. 1, 2017.

These top highest 5 compensated bay area CEOs from 2015/16 may be a bit nervous headed into 2017.

1	Rive, Lyndon	$77.32 million	SolarCity Corp.
2	McLaughlin, Mark	$66.61 million	Palo Alto Networks
3	Hurd, Mark P.	$53.25 million	Oracle
4	Catz, Safra	$53.24 million	Oracle
5	Mayer, Marissa	$35.98 million	Yahoo Inc.

Greeny of the Quarter

DivestInvest
PHILANTHROPY

Divest-Invest Philanthropy

Back in 2014, seventeen foundations, with nearly $2 billion in assets, pledged to divest their portfolios from fossil-fuel companies and to invest in a new clean energy economy. This spurred the launch known as Divest-Invest Philanthropy, and included institutions such as the Russell Family Foundation, the Educational Foundation of America, the Park Foundation, the Schmidt Family Foundation, and Wallace Global Fund. Two years later and the organization represents a group of 140 institutions to adopt divestment.

Divest-Invest Philanthropy is a platform for institutions that follows the lead of student and community-driven fossil fuel divestment and new energy economy. Their voices have inspired people, campuses, municipalities, pension funds, foundations, faith-based and health-based groups, investment advisors, businesses and others to think critically about the value of fossil fuel divestment and what reinvestment in climate solutions looks like. There thinking isn't necessarily just about saving the planet. There is a growing recognition that the majority of fossil fuel reserves now on the books of these oil companies will become "stranded assets". The UN's Intergovernmental Panel on Climate Change establishes the compelling science. Fossil-fuel stocks, whose valuations are linked to reserves, are thus vastly over-valued, with conservative estimates pointing to a multi-trillion dollar "carbon bubble" many times the recent $2 trillion housing bust. The institutions making this commitment has stated over the next five years they will:

1) Stop any new investments in the top 200 fossil fuel companies.

2) Drop coal, oil and gas from our investment portfolio by divesting from the top 200 fossil fuel companies.

3) Invest at least 5 percent of our portfolio into climate solutions defined as renewable energy, energy efficiency, clean technology and clean energy access.

If you are interested in learning more about our services, please contact us at **info@sustainvest.com** or call us at **707-766-9480**

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