Sustainvest Asset Management, LLC

4th Quarter 2018

Your Investments. Your Planet. Your Choice.

Inside

Economy

And just as we entered the longest bull market on record last quarter, the rug gets pulled out quickly from under us. This past quarter is a prime example of why it is important to stick to an asset allocation that fits each individual client. It also is a good reminder that we can't have positive stock market returns every year. If we did, well, then it would be called something else. The main objective is to make sure that all clients realize that portfolios are set up with specific risk profile and timeline in mind.

What us Sustainvesters (and the multi-billion dollar pensions and endowments) have to base all of this on is this. Going back to 1928, the average annual return of the S&P 500 is 9.8%. During that same time period the bond market has done about 5% annually. With this quarter's volatility it's easy to get caught up on the sparkly moving letters and talking shiny heads on CNBC whose jobs are to keep the viewer staring at the screen. But staying disciplined with rebalancing is key regardless of the 1,000 point swings. The government shutdown drama continues as well. Historically, when a shutdown lasted more than 5 days, the average U.S. stock market return during the event was –0.94%. Average returns for the 12-month period after any shutdown, however, were 10.77%. Another reason we cannot base investment decisions on what Washington is up to. On a positive note, we are clearly seeing that investing with sustainability in mind is not having any negative effect on portfolio returns. For 2018, DSI (the sustainably screened index) was down 5.33% and the S&P 500 (SPY) which does not utilize any sustainability screen, was down 6.2%. Energy (think Exxon and Chevron

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Companies Committed

The robots are coming. Well, kind of. One company that is using robots to help make design helpful in climate change is Dassault Systemes. Dessault is a French firm that designs engineering software which provides companies with 3D software applications to transform the way products are designed, produced, and maintained. Think instead of using a pencil and paper, a robot takes lots of data and comes up with a design itself. One example of their software being used is the recent flying of the Solar Impulse solar aircraft capable of flying day and night using solar energy. This clean energy plane was planned, designed and tested using Dassault Systèmes' virtual technologies.

In 2018, Dassault was voted the most sustainable company in the world by Corporate Knights in their annual top 100 company list. The report looks to publicly-disclosed data—financial filings, sustainability reports, etc.—from some 6,000 financially healthy companies across the globe, in all industries, with a minimum annual revenue of $1 billion. According to Corporate Knights, Dessault bested all others in the sustainability ranking by having strong female representation on its board, having a smallish gap between the pay of its CEO and its average workers, and paying more than 26% of its earnings in taxes over the past five years.

Among the results of their report, Corporate Knights discovered that companies on its list of 100 most sustainable had three times as many female top executives than the average multinational firms generating over $1 billion. They also paid 27% more in taxes. Good on them.

Note: Sustainvest does not have a position in the company

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Education

Gifting that Appreciated Netflix Stock

While getting chastised recently by a local Whole Foods cashier for not giving my 25 cents on new years eve, I was curious if investors knew of ways to create more impact via their stock portfolios. With the holidays and new years' celebrations behind us, now would be a good time to discuss an alternative to giving away cash to our favorite non-profits. While it's certainly worthwhile when you gift hard-earned greenbacks, there can be more tax beneficial ways to gift assets.

Here at Sustainvest we have noticed clients deciding to give more. Instead of selling the assets and then donating the proceeds, investors are starting to consider transferring portions of their stocks directly to a charitable 501c3. Why? Well, the obvious reason is to support a non-profit that aligns with one's personal values. But another reason is taxes. Stock gains, once they are sold or "realized" are taxable. If the investment is held for more than one year, then the gain is taxed at a long-term capital gains rate. But, when a donor makes a gift of an appreciated asset to a charitable organization, the donor can avoid recognizing a long-term capital gain and also receive a tax deduction. There...a win win for both parties.(This is not tax advice and a CPA should be consulted).

With more than 1.8 million IRS-qualified nonprofit organizations operating in the United States, there are certainly many worthy places to send a few shares of that appreciated World Wrestling WWE stock. Incorporating your values, life experiences, interests, and relationships into your charitable giving strategy can bring more to your giving as well.

A few resources:

- Charity Navigator: Thousands of charities are rated on a numbers-based system by a team of analysts
- Give.org: The website of the Better Business Bureau's Wise Giving Alliance produces reports about national charities
- GuideStar: Easily compare charities and gain access to their financial information.

If you're like most Americans, donating money to charity may be second nature for you. The majority of the nearly $375 billion in annual donations to charities in recent years has come directly from individual donations. Over the past two decades, total charitable giving in the United States has grown 83% when adjusted for inflation.

As a corporate member of the 1% For the Planet organization we are proud to have committed to gifting 1% of annual revenues to environmentally focused non-profits.

"Every aspect of our lives is, in a sense, a vote for the kind of world we want to live in."

— Frances Moore Lappé,
author of Diet for a Small Planet

Shareholder Activism

Sustainvest Update

This year we were able to file 2 shareholder resolutions, both of them on how the boards at Dunkin Donuts (DNKN) and Anthem Blue Cross Inc. (ANTM) insurance company are addressing the compensation of their executives. More specifically, we are asking these 2 companies if they have any plans in place to compensate their CEO and highly paid executives when it comes to how they are facing sustainability metrics at their companies. In other words, are these highly paid C-level suite employees being held accountable for issues like energy efficiency, waste production or livable wages for their employees?

Many multi-national companies including Intel, Alcoa, Pepsi, Mead Johnson and Walt Disney have integrated sustainability metrics into their executive pay incentive plans, therefore it is not a strange ask of shareholder advocates like Sustainvest. The CEO of Dunkin made over $5 million in 2017 and the CEO of Anthem over $2 million with no reference as to how much of that coincided with sustainability metrics.

We spoke to chief counsel at both companies and they were quick to ask us to pull back the resolution due to certain reasons, but we did not find those reasons compelling enough to take back our request. We are awaiting the SEC's decision on whether or not they find the request valid for shareholder concern and long term value for the stock price.

According to a report from the Economic Policy Institute, the average CEO pay is 271 times the nearly $58,000 annual average pay of the typical American worker.

Top 5 Highest Paid Bank CEOs Salary

1. Jamie Dimon	JP Morgan Chase	$28million
2. Bryan Moynihan	Bof America/Merrill Lynch	$21million
3. Michael Corbat	Citigroup	$18million
4. Timothy Sloan	Wells Fargo	$17million
5. William Demcheck	PNC Financial	$13million

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was the worst performing sector down over 20% for 2018. On the green side, the cleaner index fund Invesco Clean Energy (PBW) was down 15.5%. During an administration that is pushing climate change initiatives to the side, it is great to see alternative energy outperforming dirty oil companies. As we search for ways to mitigate risk generally there are asset classes that perform better than others. Not in 2018. This is the first year since 1972 in which no asset class has returned 5%. There are definite outliers including individual stocks and short siding but in terms of asset allocation, it was a mute year. During the financial crisis in 2008, government bonds and gold showed solid increases. In 2018, we see that a small ownership in gold (or cash for that matter) is a way to hedge against downturns like Q4.

	Q4 2018	**2018**
S&P500	-14.03%	-6.2%
DOW 30	-12.47%	-5.6%
Nasdaq	-17.54%	-3.9%
DSI (sustainable)	-12.91%	-5.33%
Gold	7.53%	-1.94%
XLE (oil energy)	-24.28%	-20.63%
PBW (clean energy)	-13.75%	-15.65%

So where does all of this leave us. Well, for one we realize we can't have the sunrise without the sunset. Once valuations look to hold steady below historical norms in Q1 2019, then it may be time to pull from bonds and head into stocks (within reason fitting each client's unique profile). The Fed has to keep inflation at bay and any additional raise may keep the market from moving up. That being said, higher interest rates will allow retirees to earn more on their bank CD's. In all honesty, it is the retirees who rely on CD's and bonds who have beared the brunt over the last 10 years of low interest rates. Over the long term, higher short-term interest rates will help investment returns after inflation. And, of course, positive real rates are good news for the next generation of investors, who one day will see the benefit of putting money away.

Greeny of the Quarter

Occasionally, clients will ask us about impact investing. As many of our clients know, they are directly making an impact in their portfolios not only through the use of sustainably screened funds and stocks, but also through community investing. Sustainvest generally uses the **Calvert Community Investment Note** (issued by Calvert Impact Capital Inc. a 501c3 nonprofit) as a way of doing so. Not to be confused with Calvert mutual funds, this is a fixed income product that invests in a global portfolio of intermediaries and funds mission-driven organizations. Because of our client's commitment to sustainability we are able to direct investing dollars into entities as such, for a small return back to clients of course. Through these notes, then Calvert that are investing in communities left out of traditional capital markets. During their 22-year history they have mobilized nearly $2 billion of investor capital.

So how does the Calvert Community Note invest client assets? Calvert pools dollars to make loans to roughly 100 mission-driven organizations worldwide that have a social and/or environmental focus lending to organizations working in areas like climate change, education, microfinance, affordable housing, and gender equity. One example took place in Denver, CO. Denver has quickly become one of America's fastest growing cities. However since the legalization of marijuana, many growers and dispensary owners have been buying warehouse property in the city, pushing up overall real estate costs. In the past two years, rent for industrial space in Denver has increased by over 20%, which has pushed out many businesses and non-profit organizations who can't afford increased costs. In response, Calvert has been working with local partners to focus their portfolio to finance small businesses and support the growth and affordability of industrial and community spaces. At the Social Enterprise Foundry, a 44,000 square-foot warehouse space, with the help of Calvert's funding, the Urban Land Conservancy acquired the warehouse and preserved it as affordable office units for some of Denver's leading nonprofits.

In 2017, they brought on 939 new investors and $162.3 million in new capital and reinvestments growing investor community by nearly 25% to 4,880 investors. Current interest rates range from 1.50% for a 1 year term up to 4.00% for a 15 year note.

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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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