SUSTAINVEST
Asset Management, LLC

4th Quarter 2018

Your Investments. Your Planet. Your Choice.

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

Inside

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Education

Gifting that Appreciated Netflix Stock

While getting chastised recently by a local Whole Foods check out man 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 on this).

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 youôre 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.

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

ñ Frances Moore Lapp®,
author of Diet for a Small Planet

Shareholder Activism

Sustainvest Update

This year, we are proud to be able to file 2 shareholder resolutions. Both of them revolve around 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.

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

As Hurricane Florence made landfall in September with devastating floods, advocates of sustainable investing sought to draw attention to climate change and the benefits of aligning capital to combat a warming planet. For this quarter's greeny we thought it would be good to take a step back and highlight all of those who have taken the step to divest of dirty oil and coal companies (this includes Sustainvest clients!). Investors with $6.2tn in assets under management have committed to divest from fossil fuels, up from $5.2tn in 2016.

Besides individual investors, global institutional investors — including insurance companies, sovereign wealth funds and pension funds — have committed to divesting from fossil fuels. Among institutional investors divesting from fossil fuels, 29% are faith-based organizations, 17% are philanthropic foundations, and 15% each are educational institutions, government institutions and pension funds. Among pension funds, an additional 61 funds have committed to divestment since 2016, bringing the total to 144 in 2018. The largest pension fund to commit to divestment within the past five years was the $195 billion New York City Retirement Systems in January. Seattle University is set to be the first college in Washington state and the first Jesuit college to divest in fossil fuels, according to a report by the Seattle Times. University officials said it would no longer invest any of its $230 million endowment in, "funds and securities" of fossil fuel companies. More than $13 million of the endowment is currently spent on fossil fuels, according to the report.

Divestment appears to be concerning oil and gas majors. In Shell's last annual report it states: "It could have a material adverse effect on the price of our securities and our ability to access equity capital markets." Furthermore, the World Bank Group has committed to stopping funding oil and gas development and major insurers including Swiss Re have decided to stop underwriting coal projects. So from top down to bottom, the divestment movement is still in full force even as we watch the price per barrel grow close to that $100 price. Eventually this movement will separate the good from the bad and have some energy companies rise as the cream to the top while others fall by the wayside.

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1% FOR THE PLANET MEMBER

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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