AIO FINANCIAL AND IMPACT FINANCIAL PLANNERS PRESENT

SUSTAINABLE, RESPONSIBLE, IMPACT INVESTING
MADE EASY

A Practical Guide
for socially conscious investors

Bill Holliday, CFP®, AIF®, CSRIC™

AIO Financial, LLC

www.aiofinancial.com
www.impactfinancialplanners.com
www.impactinvestingfirms.com

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This text is intended to give general information about Sustainable, Responsible, Impact Investing or Socially Responsible Investing (SRI). It is not intended to be a substitute for personalized advice from a Certified Financial Planner. The author makes his best effort to keep the information current and accurate; however, because of continual changes no guarantee can be made as to the accuracy of the information contained within.

Your Feedback is Greatly Appreciated

I am very interested in hearing your thoughts. Please let me know if this book has been helpful or if you have any suggestions to make it better. I welcome any comments or questions.

You can email me (bill@aiofinancial.com) or you can connect with me on most social media channels.

Thank you for your interest in this topic and I hope you find this helpful.

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1.0 Introduction

"Most investors want to do today what they should have done yesterday." Larry Summers

The purpose of this book is to be a practical guide to help make Sustainable, Responsible, Impact Investing (SRI) accessible.

This is an update from last year's eBook to include a section of resources for financial advisors.

Sustainable, Responsible, Impact Investments (SRI) provide you with the chance to vote with your investments and influence our world. SRI is a rapidly growing area of investment. It is outpacing the overall rate of general investment growth.

SRI allows individual investors the ability to have investments in line with their values. It provides another tool to address important issues. SRI provides a way to support technologies and issues while earning a competitive return. As an example, if someone is concerned about global warming or campaign finance reform, SRI is a strategy to address these issues.

Being knowledgeable about SRI allows investment advisors the ability to connect with clients and more fully meet their needs by being able to offer SRI options and discussing the trade-offs of those options. Part of the conversation with clients may be simply letting clients know what they are invested in and seeing if that is alright with them. If they are not comfortable with the companies they are invested in, an advisor can inform them of the alternatives.

This is meant to be a practical guide. The goal is to help make SRI a reasonable option. I encourage people who are interested in SRI to start investing in some of the many SRI options, even at a small level and grow your involvement as your knowledge grows. An investor will pay more attention to the funds' activities if they own them and they will receive get regular updates. An SRI investor can be a part of the change they hope for in our world.

There are different degrees of SRI involvement. SRI can be as simple as using a member owned credit union instead of publicly traded banks driven by a profit motivation. It can involve investing in Calvert Community Investment Notes that support international micro-credit and provide semi-annual interest payments and returns the investment at maturity. SRI can involve investing part of the US stock portfolio in a low-cost SRI index fund (0.28% expense ratio) that provides SRI screening. It can include purchasing a SRI mutual fund that is active in screening, shareholder advocacy and community investing.

This eBook focuses on investors and financial advisors. Although I will briefly address individual stocks, alternative investments, separately managed accounts. I will focus on mutual funds, exchange traded funds, and community investing opportunities.

2.0 About the Author

"Fail often so you can succeed sooner." Tom Kelley

Bill is a fee-only financial advisor who works with individuals interested in SRI.

Bill Holliday is a Certified Financial Planner (CFP) , Accredited Investment Fiduciary (AIF), Chartered SRI Counselor (CSRIC), and a member of National Association of Professional Financial Advisers (NAPFA). He is a founder of the fee only financial planning firm AIO Financial (aiofinancial.com) which specializes in Sustainable, Responsible, Impact Investing (SRI).

Bill hosts the Impact Financial Planners podcast about SRI (impactfinancialplanners.com) to make SRI accessible for anyone. He contributes for AIO Financial blog (aiofinancial.com/blog) which focuses on comprehensive personal financial planning issues, such as: investing, retirement, taxes, estate plan, debt, and more. He operates Impact Investing Firms (impactinvestingfirms.com) which is a community to support financial advisors who provide SRI for their clients.

Bill became interested in SRI when he saw the impact of micro-credit (which can be part of an SRI portfolio) in Nicaragua, when he served in the US Peace Corps from 2002 to 2004. He was profoundly moved by the impact of supporting small businesses in emerging communities. When Bill finished his service with the Peace Corps, he spent a year living in Nogales, Sonora, Mexico to help start a micro-finance operation on the US-Mexico border to support low income communities.

In 2012, Bill formed a 501(c)(3) non-profit charity that supports economic development and migrants in northern Mexico called ProMex Group (www.promexgroup.org). He is the current volunteer director of ProMex Group. Bill gives talks about the impact of the project to interested groups, leads trips to visit projects in Nogales, Mexico. He is fluent in Spanish.

Bill lives in Tucson, Arizona and Hermosillo, Sonora, Mexico but has clients throughout the US and travels regularly. His wife is from Caborca, Mexico, where they spend many holidays. He has two daughters.

Bill Holliday, CFP

3.0 What is Sustainable, Responsible, Impact Investing (SRI)

"Behind every stock is a company. Find out what it's doing." Peter Lynch

SRI has many names, approaches, degrees of involvement and ways to invest.

SRI is an investment strategy which seeks to maximize both financial return and social good. It is a way to use our financial system to positively impact society. SRI allows people the ability to incorporate their values in their investment decisions

You may also hear SRI referred to as:

- Sustainable, Responsible, Impact Investing
- Socially Responsible Investing
- ESG Investing - Environmental, Social & Governance
- Sustainable Investing
- Ethical Investing
- Green Investing
- Double-Bottom Line Investing
- Triple-Bottom Line Investing
- Socially Conscious Investing
- Mission Investing
- Values Investing
- Responsible Investing
- Impact Investing

SRI is not the same for everyone. Values and priorities can vary greatly..

There are many ways to develop an SRI portfolio by using:

- Individual stocks
- SRI mutual funds
- SRI exchange traded funds (ETFs)
- Community development loan fund
- Managed accounts (from asset management firms)
- Alternative investments

4.0 Growth of SRI

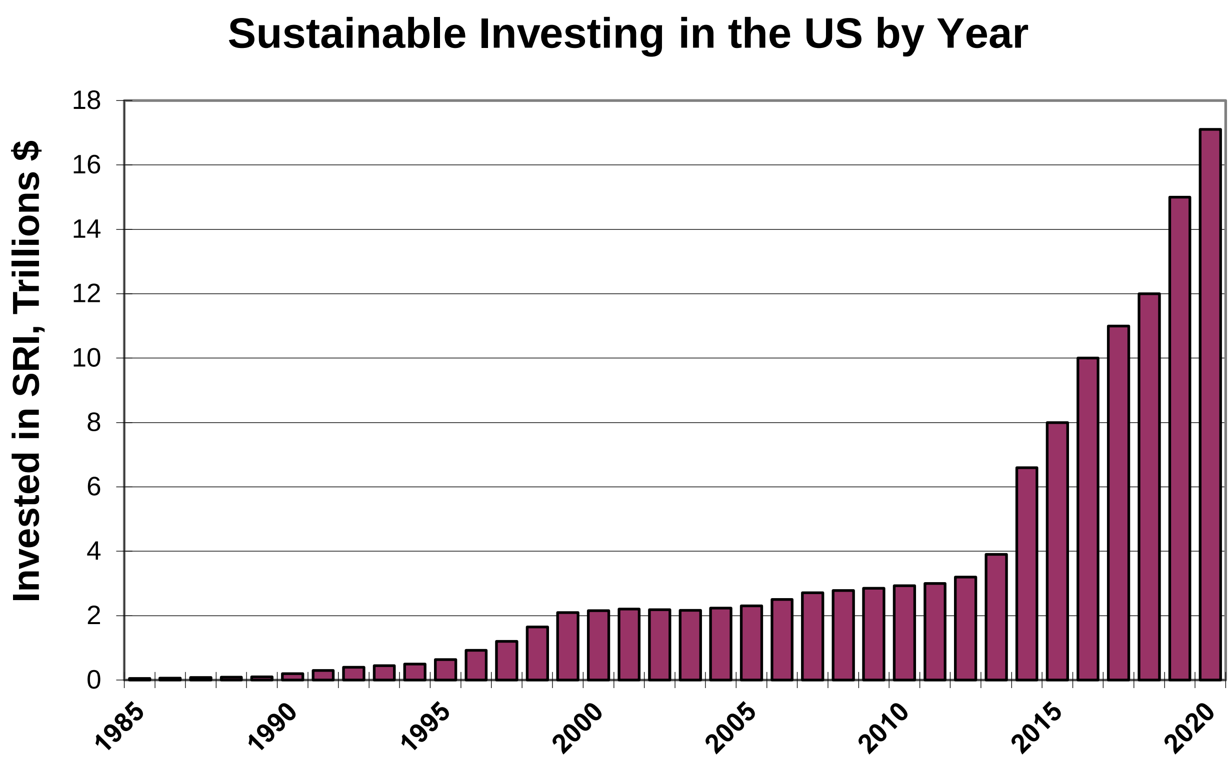
"If you just work on stuff that you like and you're passionate about, you don't have to have a master plan with how things will play out." Mark Zuckerberg

SRI has grown more rapidly than general investments.

SRI has taken off over the past 20 years and is becoming mainstream. The amount of assets that are managed in the US that use an ESG (Environment, Social, Governance) criteria in their analysis has increased to about $17 trillion. Thirty-three percent of all managed investments in the US use an ESG strategy. That is a 42% in the last two years, it is growing more rapidly than general investments.

Some of the main reasons why SRI is more attractive, include:

- There is more availability. There are about 836 SRI funds available in the US.
- SRI mutual fund and ETF (Exchange Traded Fund) performance has improved. Because of the increased competition and the increased size of these funds, administrative costs are lower.
- SRI performance in many cases have out-performed standard indexes because many avoid fossil fuel companies which have underperformed the market over the past few years.
- There are companies and industries people do or do not want to support and there is more information readily available than ever before.
- There is more awareness around climate change and its impact and many people want to divest from fossil fuel related companies.
- There is more awareness that people can make an impact with their investments on issues of: corporate political activity, climate change, equal employment opportunities, board diversity, sustainable agriculture, executive compensation, conflict risk,



Source: USSIF (www.ussif.org)

4.1 Degrees of SRI

There is not one type of SRI portfolio. For advisors, this is a conversation to have with clients. This is a chance to find out about their values and priorities. For investors, it's helpful to know where your priorities are and what trade-offs you are willing to accept. There is no right answer. There is a questionnaire in Section 10.4 that can help with thinking about where you stand.

There are four types of investors. There are investors between these categories but, in general, they fall into these types.

1. Investors not interested in SRI, who want a diversified portfolio using very low expense ETFs or index funds. They want a diversified portfolio with broad exposure at the lowest possible cost (low expense ratio, see Section 9.3).

2 Investors who want everything SRI and a well diversified portfolio. They do not want exposure to any non-SRI holdings. Some investors do not want any ownership in any company that is not in line with their values, even if the intent of the fund is to make

changes in the company. See Section 13.2.

3. Investors are interested in the idea of SRI and want some exposure but they do not want to sacrifice performance. They do not want funds with significantly higher expenses. Mostly they are interested in SRI funds in the large US equity space and maybe a small amount in community investment notes. They are fine with ETFs for other asset classes. This is referred to as semi-SRI.

4. Investors are concerned about a specific issue, such as: climate change, helping developing economies, alternative energy, organic farming, or a religious issue. They may fall in the Category 1, 2 or 3 above but want to be sure to have some exposure (and/or lack of exposure) around a particular issue. See Section 13.1 for a Fossil Fuel Free portfolio.

4.2 Motivation for SRI

There are many reasons for SRI and many degrees of involvement within portfolios - it is not a one-size-fits-all strategy.

In addition to individual investors, other investors in SRI include: pension funds, foundations, religious institutions, non-profit institutions, and venture capitalists. There are many motivations for investing in SRI including: personal values, religious beliefs, institutional mission, and the desires of constituents or plan participants.

4.2.1 Avoiding Undesirable Companies

Some people and organizations are not comfortable investing in and supporting some companies. Here are a few companies that are part of the S&P 500, which you may want to challenge and change.

Table 1 – Some Companies that Make up the S&P 500

Company	GICS Sub Industry		Company	GICS Sub Industry
Exxon Mobil	Integrated Oil & Gas		Raytheon	Aerospace & Defense
Chevron Corp	Integrated Oil & Gas		Marathon Petroleum	Oil & gas Refining & Marketing & Transportation
Bank of America	Banks		Archer-Daniels-Midland	Agricultural Products
Coca-Cola	Soft Drinks		Hess Corp	Integrated Oil & Gas
Philip Morris Intl	Tobacco		GE	Industrial Conglomerates
Pepsico	Soft Drinks		Northrop Grumman	Aerospace & Defense
Wal-Mart	Hypermarkets & Super Centers		Cabot Oil & Gas	Oil & Gas Exploration & Production
McDonald's	Restaurants		Newmont Mining	Gold
Conoco Phillips	Oil & Gas Exploration & Production		Wynn Resorts Ltd	Casinos & Gaming
Occidental Petroleum	Oil & Gas Exploration & Production		Murphy Oil	Integrated Oil & Gas
AIG	Property & Casualty Insurance		Transocean	Oil & Gas Drilling
Goldman Sachs	Diversified Financial Services		Freeport-McMoran	Diversified Metals & Mining
Caterpillar	Construction & Farm Machinery & Heavy Trucks		Lockheed Martin	Aerospace & Defense
Du Pont	Diversified Chemicals		Consol Energy	Coal & Consumable Fuels
Monsanto	Fertilizers & Agricultural Chemicals		Schlumberger	Oil & Gas Equipment & Services
Dow Chemical	Diversified Chemicals		Halliburton	Oil & Gas Equipment & Services
General Dynamics	Aerospace & Defense		Comcast Corp	Broadcasting & Cable TV
Citigroup Inc	Banks			

If you own an S&P 500 index fund you own these companies. If you do not own an SRI fund with any of these holdings, you are voting with management on environmental, social and governance (ESG) shareholder resolutions. If that is of concern, SRI may be a good option for you. Holding these companies in an SRI fund allows change in these companies through shareholder resolutions and dialog with the companies. SRI funds will screen out and avoid many of these companies.

4.2.2 Political Tool

Most of the clients I work with are not content with the influence of corporations in our political system and are concerned about:

- the environment (in particular climate change),
- corporate political spending
- executive compensation (and the disparity between worker and executive compensation)
- military weapons (avoidance)

Many investors are frustrated about the inaction of our government on many issues. SRI can influence corporations on a broad range of issues that our government is not addressing.

Corporations (and money in general) have a great influence in our political system. A vicious cycle occurs because of that influence. Politicians increase the power of corporations that in turn fund political campaigns. Through SRI, investors can influence corporations and help break this cycle.

29 companies paid millions for lobbying and paid nothing in taxes. General Electric (GE) is a good example of this. GE spent about $40 million in lobbyists and paid $0 in taxes. Lobbyists were a very good investment for GE at the expense of US taxpayers.

Again, SRI provides an opportunity to more fully meet ones needs. It is a discussion to have with investors and for investors to think about themselves.

4.2.3 Specific Issues

There are many people who are very concerned about a particular issue and are not comfortable with investments that do not support their issue. With SRI, people can vote with their investments.

Many religious groups (including the Unitarian Universalist, Catholics, and Presbyterians) are avoiding corporations that are not in line with their values and supporting industries that are.

There is currently a Sudan divestment campaign that is similar to the South African apartheid campaign of the 1970's and 80's. These divestments played an important role in weakening the oppressive South African government.

Many investors do not want ownership of Monsanto, which is part of the S&P 500 and part of many index funds. One issue is with their GMOs (genetically modified organisms). People would like to see labeling, independent safety studies, and protection from cross contamination.

Climate change is one of the biggest issues of our time. There are groups, such as www.350.org, that are calling for divestment in corporations involved with fossil fuels. Numerous university funds have joined the campaign. SRI mutual funds and ETFs make having a diversified portfolio that is fossil fuel free relatively easy.

For many, divestment in fossil fuels is not only a step towards combating climate change, it may very well be a good financial move. There may be a carbon bubble. A carbon bubble could happen because the shares of fossil fuel based companies are under the assumption that all fossil fuel reserves will be extracted and consumed. It may happen that more than half of the fossil fuels will remain underground if the world is to meet existing internationally agreed targets to avoid threshold for 'dangerous' climate change. This would dramatically reduce the value of fossil fuel based companies.

5.0 Three Major Components of SRI

"Behold the turtle, he makes progress only when he sticks his neck out." Bruce Levin

The three components of SRI: screening, shareholder advocacy, and community investing

There are three major approaches to SRI and several ways to get involved.

Screening (Section 6) - using positive and negative filters to select investments (avoid or include investments). Positive and/or negative screening can be accomplished using:

Individual Stocks –create a portfolio out of individual stocks and bonds or use a money manager who focuses on SRI that will set up a separate account and manage your investments. There is not an expense ratio to pay with individual stocks but there are transaction fees.

SRI Mutual Funds – use SRI mutual funds that share similar values to screen their holdings.

SRI ETFs (Exchange Traded Funds) – you can use SRI ETFs for part or all of your portfolio.

Shareholder Advocacy (Section 7) - shareholding involvement (as an individual, through a mutual fund, or foundation). Voting proxies for shareholder resolutions or choosing mutual funds that vote in line with your values.

Individual Stocks – You and/or your advisor can vote your proxies.

SRI Mutual Funds – many SRI mutual funds vote proxies and engage in corporate engagement (shareholder resolutions, letters, and corporate engagement).

Community Investing (Section 8) - providing money for people who otherwise would not have access to help close the wealth disparity. This can be as simple as using a credit union that is member owned instead of a shareholder owned bank that is driven by profit.

Community Investment Notes – Calvert notes can be held in a brokerage account.

CDFI Credit Unions – as simple as using a member owned credit union instead of a shareholder owned, profit driven bank for savings, checking, debit and ATM cards.

SRI Mutual Funds – some SRI mutual funds have some community investment holdings.

6.0 Screening

"If you don't study any companies, you have the same success buying stocks as you do in a poker game if you bet without looking at your cards." Peter Lynch

Both positive (inclusion) and negative (exclusion) screens are used in SRI funds and ETFs.

Screening is one of the three components of SRI. Screening is the process of selecting companies to invest in based on their social, environmental and governance performance.

SRI funds approach this in two ways. One is to completely divest from companies that are not in line with their values. This could be animal testing, producing weapons, bad environmental performance, or poor labor conditions. The goal would be to negatively impact a company by lowering their stock price. Another strategy is to hold shares of companies that are not in line with your values to engage with them and make positive changes.

The screening process is composed of two methods, positive and negative screening. Negative (avoidance) screening is excluding companies with poor ESG (Environmental, Social, Governance) records. Negative screening is the simplest SRI method. Some funds simply screen companies that participate in the production of alcohol, tobacco, weapons or gambling products, known collectively as the "sin" screens.

Positive (affirmative) screening involves selecting companies based on their industry, environmental, governance and social record. One form of positive screening is selecting the "best of class." This may include a company that is not in a favorable industry or that has had past problems but has a positive ESG performance relative to industry peers. The reason for a best-in-class approach is to provide diversification in the portfolio (invest in all sectors possible) and, through shareholder activism, positive changes in these companies can be made.

The ESG screening is considered along with financial performance indicators to select appropriate stock.

Divestment makes a statement and sets a positive example, but it also can reduce the stock price if there is enough divestment. Lower stock prices indirectly hurt a company in several ways.

- It is damaging to a company that relies on outside financing to fund its operations.
- It reduces the amount of money that can be raised through a stock offering.
- It can increase the cost of borrowing because banks consider share price when making lending decisions. Share price can affect the interest rate of loans. Many businesses cannot survive without access to cheap capital.

- It can hurt employee retention. Many companies use stock options to attract talent. If the options are not worth anything (if the market price is lower than the option price) there is not as much of an incentive to stay with that company.
- It may impact a customer's decision to work with a corporation because they may question how long the company will last and if they can fulfill their contract or warranty.
- It can cause a change in company executives if shareholders are not content with the stock performance.

7.0 Shareholder Advocacy

“If everything seems under control, you’re just not going fast enough.” Mario Andretti

Shareholder advocacy involves using your right as a shareholder to make changes – through individual stock or SRI mutual funds.

Shareholder activism is the second component of SRI. It involves using your rights as a shareholder (an owner of companies) to make changes and hold corporations accountable for their actions related to social, environmental, and corporate governance issues. The total number of shareholder resolutions on social, environmental and governance issues has increased to historic levels.

There are several ways a shareholder can make changes.

1. Vote of proxies. All shareholders may vote on annual meeting agenda items. If you do not attend the meeting you can vote by mail.
2. Write letters. As a shareholder (owner) you can write letters to the company. All public companies have Investor Relations Departments.
3. File resolutions. Shareholders may petition companies for annual meeting agendas when they have an investment of at least $2,000. However, companies can petition the SEC to get resolutions dismissed if they do not have significant legal support. Note that resolutions often pass with less than 30% in favor.
4. Have in-person meetings/dialogues. Meeting with company executive to discuss issues. Letters to executives and shareholder resolutions may lead to discussions with executives.
5. Divest – sell your shares. By selling your shares you release any influence in the company, but divesting does send a message.

It is important to note that if investors do not vote, management has the right to vote for you. That is why shareholder resolutions can pass with such a small percentage, because many investors do not vote.

Mutual funds that do not have socially responsible objectives (such as: Fidelity, Vanguard, American Funds, Franklin Templeton, T Rowe Price, Columbia Management) have a policy to support management or abstain from voting on issues that address social, ethical, political and governance issues.

You have a voice as an owner of individual shares of stock or as an investor in an SRI mutual fund that shares your values. Another way to get involved in shareholder advocacy is through foundations, religious, environmental, political or concerned organizations.

7.1 Shareholder Advocacy Involvement by Fund

Table 2 show the number of shareholder resolutions filed in a single year by several of the most active investment companies. Many resolutions are withdrawn if an agreement can be made.

Table 2 – Number of Shareholder Resolutions Filed in one Year for Investment Companies

Investment Company	Lead Filings	Co-Filings	Total
Trillium	38	2	40
Walden	21	10	31
Zevin	18	0	18
Calvert	14	2	16
First Affirmative	3	10	13
Domini	7	4	11
Green Century	7	2	9
Miller/Howard	5	3	8
Boston Common	1	6	7
Appleseed	2	1	3
Jantz	2	0	2

There is a cost to shareholder advocacy in mutual funds. As shown in Table 3, in many cases the expense ratio is higher for funds with more shareholder advocacy. The expense ratio is discussed in Section 9.3. It is the cost of operating the fund and directly impacts the return on the investment. Table 3 shows the expense ratio for institutional and investor shares. There is not an indicator that easily compares the effort or amount of time each fund spends on shareholder advocacy. Most fund websites have a page for their proxy voting record, communications with companies, and shareholder resolutions files. It is necessary to not only review the funds' websites but to contact each fund to determine the amount of shareholder activism. Each year, AIO sends a questionnaire to each fund company asking about their shareholder advocacy.

Here is a view of how AIO evaluates individual funds.

- If there is no corporate engagement, we give the fund a Shareholder Advocacy (SA) rating of 0 out of 5.
- If they just vote their proxies, but have no other engagement, we give them an SA rating of 1.

- If they vote proxies and engage with companies, but do not have dedicated SA staff and do not file shareholder resolutions, they get an SA rating of 2.
- If they vote their proxies, engage with companies and file shareholder resolutions or have dedicated staff to engage with companies, they get an SA rating of 3.
- A rating of 4 or 5 is reserved for firms that vote their proxies, engage with companies, file shareholder resolutions, and have dedicated staff to engage with companies. The difference between 4 and 5 is the degree of engagement.

Table 3 shows the AIO Ratings for Shareholder Advocacy (SA) and the reasons for the rating.

Table 3 – Evaluation of Shareholder Advocacy (SA) Involvement of Funds

Fund	AIO Rating for SA	Letters & Corporate Efforts	Share holder Resolutions per year	Staff Dedicated to SA or ESG Research	Expense Ratio	Comments
Calvert US Large Core Index	5	Many	14 as lead	6	0.41 (Inst) 0.65 (Inv)	Calvert has 29 mutual funds -5 of which are index funds.
Domini International Social Equity	5	Many	7 as lead 4 as co-filer	7	1.02 (Inst) 1.41 (Inv)	Consistent throughout funds
Walden Equity	5	199 with 114 companies	21 as lead, 10 as co-filer	5	1.07	Managed by Boston Trust, engages in public policy advocacy
Trillium P21 Global Equity	5	Many	38 as lead, 2 as co-filer	1	1.07 (Inst) 1.34 (Inv)	Trillium - improved shareholder advocacy
First Affirmative	5	Many	3 as lead, 10 as co-filer	1	0.50	Customized stock accounts
Pax Balanced	4	31 initiatives	6 as lead	4	0.05 (Inst) 0.30 (Inv)	Detailed annual sustainability reporting
Green Century Equity	4	43 initiatives, 25 letters	8 as lead, 5 as co-filer	1	0.95 (Inst) 1.25 (Inv)	Fossil fuel free, Trillium Advisors manages their Balanced Fund , engage in public policy advocacy
Parnassus Mid-Cap	2	30	0	3	0.75 (Inst) 1.01 (Inv)	Heavy in small cap corporate engagement
Appleseed	2	Many	1 as lead	1	1.20 (Inst) 1.45 (Inv)	Small firm - they manage one mutual fund that holds 25 stocks
Praxis Value Index	2	13	0	3	0.45 (Inst) 0.94 (Inv)	Mennonite principles, work with IICR.org, use MSCI ESG analytics for research
Serenity Shares ETF	1	0	0	0	0.50	ETF, Use Glass Lewis for proxy voting
Neuberger Berman Socially Responsive	1	0	0	0	0.85	Some corporate engagement and vote proxies - one SRI fund of all that they manage
iShares MSCI KLD 400 Social ETF	0	0	0	0	0.48	ETF. KLD is another SRI ETFs with low expense ratios and no shareholder advocacy.
Vanguard FTSE Social Index	0	0	0	0	0.20	No proxy voting on ESG issues. Unmanaged index.
NuShares ESG Emerging Markets ETF	0	0	0	0	0.45	NuShares offers 6 ETF. Low expenses but no shareholder advocacy.

7.2 Major Initiatives

The following are some major shareholder initiatives during that past few years.

- Corporate Political Activity
- Climate Change / Carbon Emissions
- Labor and Equal Employment Opportunities
- Executive Pay
- Independent Board Chair & Board Diversity
- Human Rights

Corporate Political Spending

Corporate political contributions play a large part in our political system. In 2020, the politician who spent the most won 94% of the house seats and 73% of the senate seats. Shareholder support for transparency and accountability for corporate political spending has steadily grown. This is consistently among the top social shareholders resolution. Due in part to shareholder pressure, thirty-five of the S&P 100 companies have agreed to disclose and require oversight of their political spending with corporate funds (including AT&T and Verizon).

Climate Change

Resolutions related to climate change were the second most common social shareholder resolutions. Last year, there were 43 climate related resolutions filed by state/city pension funds and other institutional investors. With pressure from socially responsible mutual funds, 19 firms agreed to report on their sustainability initiatives. American Electric Power received a resolution asking it to consider the economic risk of carbon dioxide and other emissions. After receiving 27% support of the shares voted, they formed a subcommittee of its board on climate change.

Executive Compensation

A coalition on institutional and individual investors with combined assets of more than $1 trillion joined to urge companies to adopt an advisory vote on executive compensation. This provided a channel for shareholders to express their concerns to corporate boards about huge pay packages that seemed unrelated to financial performance. Companies included: Aflac, HR Block, Verizon, Pfizer – but there are many to go.

Equal Employment

In recent years, shareholders have been able to pressure dozens of companies to expand their non-discrimination policies to include discrimination based on sexual orientation.

8.0 Community Investments

"The developing world is full of entrepreneurs and visionaries, who with access to education, equity and credit would play a key role in developing the economic situations in their countries." - Muhammad Yunus

Community investing provides financial services to communities that lack these services at the same time you earn interest on your investment.

Community investing, or impact investing, provides financial services for low-income communities that lack access to these services. By providing access to credit and a safe, inexpensive place for savings, this approach helps people help themselves.

8.1 Community Development Financial Institution (CDFI) Structures

There are many opportunities and many levels of involvement within community investing.

1. The simplest way to participate is to invest in a Credit Union or Bank that focus on community developments. They can be found at the Opportunity Finance Network, Community Development Bankers Association, or members of USSIF.

Examples of CDFI banks and credit unions include:

Self-Help Credit Union,
Hope Community Credit Union
Aspiration Bank

These CDFI banks and credit unions operate like a normal bank, offering savings accounts, checking accounts, CDs, and money markets. The bank accounts and CDs are FDIC insured up to $250,000 per person and the credit unions have NCUA insurance to the same limits.

2. Invest in a large diversified pooled CDFI loan fund. The loan fund in turn lends out to micro-finance institutions or to community projects. Examples include:
    - Calvert Impact Capital - creating affordable housing, promoting education, protecting the environment, and creating numerous other impacts.
    - Accion - our vision is to build a financially inclusive world – one in which every individual has access to high-quality, affordable financial services
    - Oikocredit - lends the money to cooperatives and microenterprise programs in developing countries.

These offer unsecured notes that lend to a wide variety of micro-finance organizations throughout the world. They are more secure than directly lending to an individual micro-finance organization because this is a diversified pool. This has the benefit of Calvert or Accion's review and oversight as well. The Calvert Foundation notes can be held at many brokerage houses (the CUSIP is on their website). These notes work like a bond or CD. They have a maturity date and they pay interest every 6 months. They have a $1,000 minimum and the minimum duration is 1 year. These are not liquid, so only use money you know you will not need during the investment period. You can specify where the funds go

3. Lend directly to CDFI finance institutions that focus on loans in a region. This can be very rewarding because you get updates and feedback from the organization making the loans and working with the people you want to help. Many of these organizations offer visits to the projects where they work. There is more risk, especially for smaller organizations working in a small geographical area. A natural or political disruption could devastate an organization. Here are some examples:
    - RSF Social Finance - diversified, direct loan fund comprised of over 80 US non-profit organizations and for-profit social enterprises.
    - Boston Community Capital - has invested in low-income communities primarily in Boston, creating affordable housing, quality jobs, child care, youth programs, and community services.
    - ProMujer - providing women in Latin America with vital financial, health, and human development services that are typically out of reach, but essential to breaking the cycle of poverty.
    - Shared Interest - uses their loan fund as collateral to allow black-owned small and growing businesses and smallholder farmers, microfinance and affordable housing organizations serving low- income black Southern Africans.
    - Envest Microfinance Cooperative - reducing poverty by using microfinance in Central and South America.

As with the diversified pooled funds, they are unsecured and have a maturity date and interest rate. Some require that the investors be accredited. There are some restrictions on which states allow investors into these funds. Some have minimum investment amounts as well. As with the pooled funds, there is no secondary market so only use money you do not need until the maturity date.

Many randomized studies have been conducted through the Abdul Latif Jameel Poverty Action Lab (J-PAL) to evaluate the impact of micro-credit. J-PAL was started at MIT in 2003 and is a global research center working to reduce poverty by ensuring that policy is informed by scientific evidence. Across seven countries, the studies did not see increases in incomes or women’s empowerment. Micro-credit was found to be a useful financial tool but not a tool for poverty reduction.

8.2 Community Investment Returns
The following is a list of some CDFI investments.

Table 4 – Some Community Investment Options

Investment	Comments
JP Morgan Chase (non-SRI example)	*An example for comparison*
Self Help Credit Union	NCUA insured.
Hope Community Credit Union	NCUA insured.
Aspiration	FDIC insured
Calvert Impact Capital Notes	Can be held at many brokerage houses
RSF Social Finance – social investment fund, food system fund	$1k minimum, 3 month investment term
Oikocredit	For accredited investors, $250 minimum, 1 year minimum, uninsured
FINCA Microfinance	For accredited investors, $2k minimum, 1 year minimum, uninsured
Shared Interest	For accredited investors, $3k minimum, 3 year minimum, uninsured
WCCN – Working Capital for Community Needs	For accredited investors, $2k minimum, 2 year minimum, uninsured
SosteNica	For accredited investors, $5k minimum, 2 year minimum, uninsured
Envest Microfinace Cooperative	For accredited investors, help with Envest, $25k minimum, 2 year minimum, uninsured
Bond Mutual Funds and ETFs	SRI bonds available from: Calvert, Pax, Parnassus, Domini, Azzad, Brown Advisory, iShares, Praxis, Saturna, TIAA, Calvert

An accredited investor is someone who has a net worth of at least one million US dollars, not including the value of their primary residence or they have an income of at least $200,000 each year for the last two years (or $300,000 together with their spouse if married) and have the expectation to make the same amount this year.

8.3 Green & SRI Bonds

A green bond is a bond specifically earmarked to be used for climate and environmental projects. They are designated bonds intended to encourage sustainability and to support climate-related or other types of special environmental projects.

There are many SRI Bond funds that vary by duration and bond rating. Where green bonds target environmental projects, SRI bond funds invest based on a broader range of environmental, social and governance issues.

9.0 Evaluating Investments

"If I'd only followed CNBC's advice, I'd have a million dollars today. Provided I'd started with a hundred million dollars." John Stewart

There are two main classes of investments - fixed investments and equity investments. Fixed investments are lending, such as:

- CDs (lending to banks)
- Bonds (lending to companies)
- Treasuries (lending to governments)

Fixed investments pay an agreed upon interest and if the entity is in business at maturity it returns your investment. In general, the upside is limited to the promised interest. Bond funds (mutual funds or ETFs) will fluctuate based on what the interest rate does. If the interest rate goes up the value of the bond fund will go down. The longer the length of the holdings of the fund, the more the interest rates affect the value.

Equities generally consist of owning stocks. Stocks generate money by paying dividends and by changing in value. There is no upside limit nor downside limit.

9.1 No Load and I Class Funds

Be aware of how much you are paying in fees and minimize them as much as possible.

If you are working with a commission or fee-based financial advisor or a broker, you typically pay a sales charge or commission when you buy and/or sell mutual funds. The charge goes to the advisor for selling you the fund. These fees are called loads. In addition, a load fund usually has a *12b-1 fee* that is paid on an ongoing basis to the advisor for keeping their clients in these funds. The 12b-1 fee is considered an operational expense and is included in a fund's expense ratio. It is generally between 0.25-1% of a fund's net assets. The fee gets its name from a section in the Investment Company Act of 1940.

There are five main mutual fund classes:

A Class Shares – normally have a front-end sales charge paid to the advisor/broker at the time of the initial purchase. This class has the lowest 12b-1 ongoing charge. Front-end loads reduce the amount of your investment. For example, if you have $10,000 to invest in a mutual fund with a 5% front-end load. The $500 sales load you must pay comes off the top and goes to the broker (and the broker's company) who sold you the fund, and the remaining $9,500 will be invested in the fund. The Maximum sales load is 8 1/2%.

B Class Shares - have back-end sales charges paid when selling the shares within a specified number of years. The ongoing 12b-1 fee is larger than A-shares. Back-end loads start with a fee about 5 to 6 percent, which incrementally discounts for each year that the investors own the fund's shares. The rate at which the fee declines is disclosed in the prospectus. B shares have higher annual expense charges. Hence, even though the back-end load decreases with them, the investor is paying a higher annual fee (reducing their investment return) each year.

C Class Shares - do not have a front-end or back-end fees. However, Class C shares have the highest 12b-1 ongoing expense charges – this directly reduces the return you receive on your investments. The expense ratio for C Class Share funds can be over 2%. That's 2% per year coming out of your earnings.

No Load Funds – no load funds do not have any sales charge when buying or selling and there is no ongoing 12b-1 expense.

I Class Shares – have the lowest expense ratios, about 0.5% lower than No Load Funds. They are usually only available to large (institutional) investors with minimum investment amounts of $25,000 or more. There is often a transaction fee of $20 or $50 for buying and selling. Smaller investors can gain access to the institutional class shares through employer sponsored retirement plans (401k, 403b), through some financial advisors, or in some separately managed accounts.

At AIO Financial, we use No Load Funds for small buys and sells (under $10,000), to rebalance accounts. We use Institutional Shares for larger purchases (over $10,000). Generally, we annually move No Load Funds to Institutional Shares each quarter, if the amounts are large enough. You can move from No Load Funds to Institutional Shares without occurring any capital gains by following the instructions of your brokerage house.

In addition to loads, there may be transaction fees. When you buy or sell a stock or ETF you generally pay a fee. Currently, at many discount brokerage houses (like Charles Schwab, Vanguard, Fidelity), there are no transaction fees. If you use a broker, fees to buy and sell stocks and ETFs could easily exceed $200 per trade.

Brokerage houses have a list of transaction free mutual funds. If you do not use that list there is generally a trading cost of up to $50 per trade. This can be significant for relatively small transactions. At AIO Financial, we use Schwab as our brokerage house. They have a large selection of no transaction fee SRI funds.

Ask what the charge will be before you trade. These fees can significantly reduce your overall return on investments.

9.2 Mutual Fund vs ETF

An exchange-traded fund (ETF) is a basket of securities created to track as closely as possible a particular market index, such as the Standard & Poor's 500 Index or the Dow Jones Industrial Average. They are similar to mutual funds in that they represent investments in the same types of securities, but they generally have lower fees and can be bought and sold with more pricing immediacy than mutual funds. They have some tax advantages over a fund that buys and sells often and generates capital gains for their investors.

Mutual funds trade at the end of each day. ETFs trade like stocks, during the trading day. That is not that important to long-term investors who buy and hold. ETFs generally have lower expense ratios because they are not being actively managed.

ETFs must, however, be bought and sold through brokers, and those trades may involve transaction costs. ETFs may prove to be more expensive than mutual funds to investors who add money each month to their portfolio.

9.3 Expense Ratio

There is an operating cost for mutual funds and ETFs. It is the costs from an investment company to operate a mutual fund. It includes the manager's fees, administrative costs, compliance, trading costs, 12b-1 fees paid to brokers and advertising. The expense ratio is a percentage that directly lowers the return to a fund's investors. If a fund's assets grew 10% during a particular year and the expense ratio is 1%, the investor would receive a 9% return on their investment. If the fund lost 5% during a year and had a 1% expense, the investor would lose 6%.

The expense ratio is a very critical number when comparing investments. Over years a percent or even fraction of a percent can add up and make a big difference. In general, small cap funds and international funds have higher expense ratios than large US stock funds.

Studies have shown that, over the long run, it is very difficult to outperform low cost index funds. Markets are efficient, meaning that the prices are based on publicly available information. Stocks outperform when performance is better than the expected results. A manager may be able to guess what sector is going to outperform the market in the short term, but over time it is not possible to consistently out guess the market.

9.4 Performance and Ratings

In evaluating funds, focus on the expense ratio and compare performance with the sector index.

Good performance of a portfolio is the ultimate goal, but be careful about chasing good returns. It can be tempting to look at your holding and buy more of what has done well and sell what has not done as well. It is also tempting to evaluate the options in an asset class and buy the best performers over the last year.

While performance is one indicator to look at there is another that is easy to overemphasize - the MorningStar five star system. It is one piece of information to look at but it is not a perfect tool. The star system compares the return of the fund with its closest index and looks at how the volatility compares. This can be a good tool when looking at ETFs or index funds that strictly follow indexes but many mutual funds do not purely follow an index. They may be compared to a US large cap index (such as the S&P500) but they may have 20% foreign holdings and 30% mid and small cap holdings. Hence, it is not a good comparison.

10.0 Steps to SRI

Before starting SRI, it is important to evaluate when you will need this investment money, your risk tolerance, generate an investment policy, then determine what SRIs are appropriate for which asset classes.

It is important to understand your financial situation before deciding what SRI asset to purchase. You should have an understanding of when you will need this money, consider tax implications, risk tolerance, and investment policy.

10.1 Liquidity Needs

A prudent reserve of about 3-6 months of living expenses is recommended. It should be invested in very short term non-volatile holdings such as money market or a short term bond fund. The idea is to have money available if something were to happen so you would not need to use high interest credit cards. For example, if you were in an accident and needed to cover expenses without income for a while or if you need major home repair, the prudent reserve is there to cover deductibles and other needs. For some people with adequate insurance and low deductibles, this can be on the lower end of the range. For many self employed people without significant insurance, it may be advisable to exceed the recommended range. So I review a client's insurance coverage, make recommendations and help them determine how much reserve they need and where it should be held.

You should have an understanding of your long term spending plan (even a rough idea). A different investment model (or balance of assets) for each time period that investments will be used. For funds that are needed within the next two years, a very conservative portfolio may be recommended. For investments needed between two and five years, a moderate portfolio may be used. More aggressive portfolios may be used for investments not needed for more than five years.

10.2 Risk Tolerance

"If you have trouble imagining a 20% loss in the stock market, you shouldn't be in stocks." John Bogle

It is important to know how much volatility you can handle. What you do not want to happen is that when the market goes down (which it inevitably will) you get nervous and sell your holdings at a low point and when the market is high, you get excited and buy into an inflated market.

A study was conducted (DALBAR) that calculated what the average investor actually earned over the past 20 years. If the average investor started with $100,000 in an investment account 20 years ago and earned what the S&P 500 earned (7.8%), the account value would have been $1,043,427 (this assumes no taxes or fees). The average investor earned only 3.5%/year over that time period or $479,744 in total (no taxes or fees). One problematic tendency of the average investor is that they tend to buy high and sell low.

The following are some example risk tolerance questions. The goal is to get you to start thinking about how much risk you can comfortably take. Be as honest as possible. It is not a problem if you do not want much exposure to risk. This is an important step in determining what type of portfolio will best meet your needs:

1. When do you expect to begin withdrawing money from this investment account?
   Immediately (0 pts) 1-5 years (3 pts) 6-10 years (6 pts) >11 years (8 pts) only as required (10 pts)

2. How long do you expect withdrawals to last?
   <1 year (0 pts) 1-5 years (3 pts) 6-10 years (6 pts) >11 years (8 pts) over lifetime (10 pts)

3. I will stay with my investment plan despite significant short-term losses in the value of my account if it will increase the likelihood of achieving higher long-term investment gains.
   Strongly Disagree (0 pts) Disagree (3 pts) Agree (7 pts) Strongly Agree (10 pts)

4. Choose the most appropriate statement for you.
   I want investments that provide consistent, but most likely lower returns year-to-year. I want a low level of risk. (0 pts)
   I don't mind periodic fluctuations in the value of my investments, but I would prefer to avoid investments that could generate big losses over time. (5 pts)
   I would accept investments that frequently lose value in exchange for a chance to earn higher average returns over time. (10 pts)

5. Choose the most appropriate statement for you.
   I am not comfortable with losses. I would rather earn lower returns than lose money. (0 pts)
   I am willing to accept lower returns in order to keep my investments stable. (3 pts)
   I am fine with middle-of-the-road returns because I would prefer not to see my investments decline too often. (5 pts)
   I can handle declines in my investments a few times each year. (7 pts)
   I am not concerned with frequent and sometimes large market drops. (10 pts)

6. During market declines, I tend to sell portions of my riskier assets and invest the money in safer assets.
   Strongly Agree (0 pts) Agree (3 pts) Disagree (7 pts) Strongly Disagree (10 pts)

For this example set of questions, add up your points to determine what type of portfolio is appropriate for you. Below are simplified categories.

- Low Risk 0-20
- Moderate Risk 20-40
- High Risk 40-60

Based on your timing of liquidity needs and your risk tolerance, you can start to develop an asset allocation that meets your needs.

10.3 Diversification

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas." Paul Samuelson

I recommend establishing an investment policy. By investment policy I mean establish target percentages that you want to have in each of the major asset classes. The goal is to have a diversified portfolio and to have a target that you can rebalance to.

Diversification is not a tool to boost performance rather it is used to reduce risk. By picking a variety of groups of investments, you can limit your losses and reduce the fluctuations of investment returns without sacrificing too much in potential gain.

Diversification looks at picking asset classes that are not perfectly correlated. Correlation is a measure of how much the returns of two investments move together, up or down. When you put assets that have low correlations together in a portfolio, you may be able to get more return while taking on the same level of risk, or the same returns with less risk.

A diversified portfolio should be diversified *between* asset classes and *within* asset classes. Another important aspect of building a well-diversified portfolio is that you try to stay diversified within each type of investment. For example, within US stocks, to be diversified you should have stock of companies that have different sizes and represent a variety of industries.

Rebalancing is bringing your portfolio back to your original asset allocation mix. This is necessary because over time some of your investments may become out of alignment with your investment goals. You'll find that some of your investments will grow faster than others. By rebalancing, you'll ensure that your portfolio does not overemphasize one or more asset categories, and you'll return your portfolio to a comfortable level of risk.

Shifting money away from an asset category when it is doing well in favor an asset category that is doing poorly may not be easy, but it can be a wise move. By cutting back on the current "winners" and adding more of the current so-called "losers," rebalancing forces you to buy low and sell high.

The following are three examples of investment policy distributions.

Table 5 – Example Asset Allocations for Various Risk Tolerances and Time Horizons

Broad Type of Asset	Asset Class	Example Asset Allocations		
		1. Low Risk, Short Time Horizon	2. Moderate Risk, Mid Time Horizon	3. High Risk, Long Time Horizon
Fixed	Money Market and Hold to Maturity Holdings (US Treasuries, CDs, Individual Bonds, Community Investment Notes, Structured Products)	40%	25%	10%
	Bond Funds (short, intermediate, inflation protected, long, high yield, foreign)	40%	25%	10%
Equities Stock	US Stock Funds (Large Cap, Mid Cap, Small Cap, Value, Core and Growth)	15%	35%	55%
	International Stocks (Developed and Emerging Markets)	5%	15%	25%

10.4 SRI Questionnaire

How inclined are you to seek out or avoid companies with a history of the following practices and policies?

Employee Relations and Diversity

	Seek	Neutral	Avoid
Reduce gap between executives and ordinary workers compensation			
Employee ownership, profit sharing or extensive benefits plans			
Unionization in the work force or union representation in company decisions			
Avoid profiting from child labor or sweatshops			
Family-friendly programs (e.g. family leave, on-site day care or elder care)			
Policies supporting the rights and needs of non-traditional families			

Policies supporting equality of employment & board opportunities and benefits for:

	Seek	Neutral	Avoid
Women			
Minorities			
Disabled Persons			
Gay, Lesbian, Bisexual or Transgendered Persons			
Policies regarding elderly issues and age discrimination			

Environmental Issues

	Seek	Neutral	Avoid
Programs to reduce waste or promote recycling			
Alternative energy research and development			
Climate change impact reporting			
Alternative or sustainable forestry and resource management			
Modern non-organic industrial agriculture			
Genetic modification of food organisms			
Traditional forestry and resource extraction			
Construction or operation of nuclear power plants			
Fossil fuel exploration or extraction			

Other Quality of Life Issues

	Seek	Neutral	Avoid
Tobacco product manufacture or distribution			
Alcoholic beverage production or distribution			
Gambling and gaming technology			
Genetic research for purposes of medicine and medical technology			
Use of animals in development and testing of medicine and medical technology			
Use of animals in development and testing of consumer products			
Use of animals for meat, fur, or leather			
Weapons production and distribution			
Military contractors			
Programs designed to reduce health care costs			
Affordable housing			
Policies designed to support development and maintenance of infrastructure			

Shareholder Advocacy

It is important that your investment managers:	Not Important	Neutral	Important
Engage in dialogue with corporate management to bring changes			
Vote shareholder proxies in accordance to social values			
File shareholder resolutions calling companies to take specific action			
Join coalitions with other investors and non-profits for policy change			
Any form of shareholder advocacy is acceptable			

Community Investing

Your community investments are:	Not Important	Neutral	Important
Cash reserve			
Part of mutual fund portfolio			
Investments in a brokerage account			
Any form is acceptable			

11.0 Examples of Mutual Fund-ETF Investments

SRI funds are not customized for each investor. The SRI screens can improve performance at certain times – such as when fossil fuel profits are low.

SRI mutual funds and ETFs are not customized for each investor. There is some general screening for the majority of the SRI funds. Generally, they avoid companies involved in alcohol, tobacco, gambling, weapons, fossil fuel production, and/or the military. You may not have any objection with some of these businesses (alcohol for example) but most of the SRI funds will exclude alcohol.

In general, the expense ratio of an SRI fund is higher than that of a non-SRI fund. There is additional screening that is an expense. These funds compared to large index funds do not have the scale to spread out the expenses to keep them down. SRI funds that are involved with shareholder advocacy incur additional expenses that index funds do not have.

One area where SRI funds are generally underexposed compared to a broad index is businesses working with fossil fuels. When fossil fuel companies are doing poorly, SRI funds tend to outperform a broad index. When fossil fuel prices are higher and those companies are doing well, SRI funds may underperform.

In Section 14.1, I discuss a carbon bubble, which would be an argument that avoiding fossil fuels is a good financial strategy.

There are SRI funds that focus on companies that provide a good work environment (such as Parnassus Workplace). They argue that this screening will provide better long term returns. The same can be said of other SRI filters – investing in responsible companies in the long run is a good financial filter.

Table 6 is an example of SRI mutual fund and ETF options. This is not meant to be an all inclusive comprehensive list, just a sample of what is available. Your Stake software was used to generate Table 6. They break funds into three levels of advocacy: minimum, base, and deep. The Overall ESG Alignment considers 7 different ESG focus areas and give the fund a rating from 1-10 (10 being the best). The Environmental Rating is the is also a rating from 1-10 (10 being the best).

Table 6 – Example Mutual Fund/ETF Options

ESG Advocacy	Sector	Name	Ticker	Type	Expense Ratio	Overall ESG Alignment*	Fossil Fuel Free	Environmental Rating*
Min	US Large Stock	Vanguard ESG US Stock	ESGV	ETF	0.12%	8	No	7
Min	Foreign Developed Stock	Goldman Sachs International Eq ESG	GSIFX	Mutal Fund	1.18%	7	No	8
Min	Global Stock	Vanguard Global ESG Select Stock	VEIGX	Mutal Fund	0.55%	8	No	8
Min	Intermediate Term Bond	Fidelity Sustainability Bond Index	FNDSX	Mutal Fund	0.10%	5	No	5
Base	US Large Stock	Neuberer Berman Sustainable Equity	NBSRX	Mutal Fund	0.87%	8	No	8
Base	Mid Cap Growth	Nuveen ESG Mid Cap Growth	NUMG	ETF	0.40%	8	Yes	7
Base	Foreign Developed Stock	Xtrackers MSCI ACWI ex USA ESG Equity	ACSG	ETF	0.16%	7	No	7
Base	Short Term Bond	iShares ESG Aware 1-5 yr USD Corp Bond	SUSB	ETF	0.12%	7	No	6
Deep	US Large Stock	Parnasus Core Equity Fund	PRILX	Mutal Fund	0.62%	8	Yes	9
Deep	US Small Stock	Nuveen ESG Small Cap	NUSC	ETF	0.40%	7	No	7
Deep	Foreign Developed Stock	Pax International Sustainable Economy	PXNIX	Mutal Fund	0.48%	7	No	8
Deep	Global Stock	Trillium ESG Global Equity	PORIX	Mutal Fund	1.03%	8	Yes	9
Deep	Intermediate Term Bond	Calvert Bond Fund	CBDIX	Mutal Fund	0.53%	6	No	8

* on a scale from 1-10, 10 being the best

To construct a diversified portfolio, it is advisable to have holdings an many areas, such as: US Large Cap stock, US Mid Cap stock, US Small Cap stock, Foreign Developed Country stock, Foreign Emerging Market stock, and bond funds (of different qualities and durations).

There is the opportunity to invest in funds composed of companies that focus on alternative to traditional energy sources, including: solar, wind, and geothermal. Alternative energy can be part of a diversified investment portfolio – but it should just be a small part. Energy and utilities make up about 9% of the S&P 500. If you already have a diversified portfolio with exposure to alternative energy, you may not want to over expose your position too much.

The thought in investing in alternative energy companies is to invest and grow the investment with the growth of the alternative energy industry. Which considering climate change, is a promising industry. Although with the current administration, the industry may grow slowly. Your investment in alternative energy should not be thought of as supporting alternative energy.

There are several religious funds, including: Christian, Islamic, Mennonite, Presbyterian, and Catholic. There are religious funds in many different sectors.

There are many other funds including: ESG high yield bonds, balanced stock/bond, muni-bonds, target date stock/bond, companies with women in leadership, green bonds, floating rate bonds, global water, and more.

12.0 Separately Managed Accounts

“Design is not just what it looks like and feels like. Design is how it works.” —Steve Jobs

Separately Managed Accounts (SMA) are individual, joint, trust brokerage, Roth IRA, and/or IRA accounts that are generally composed of individual stocks and bonds. Hence, there are generally no expense from the holdings (such as an expense ratio for mutual funds). The accounts may be set up at Schwab, Folio or another brokerage house. The managing firm uses one or more models to determine holdings. They can be customized, down to each individual stock, for each client. The SRI account managers engage in shareholder advocacy.

Five companies that specialize in this are:

AffirmativESG: First Affirmative provides an options that has significantly lower minimums and expenses than the alternatives. $5k account minimums through a First Affirmative fee only financial advisor. They charge 0.4% of the assets they manage per year (the fee is lower with more assets). There are no transaction fees for trades. First Affirmative is very active with shareholder advocacy. Fee Only financial advisors associated with First Affirmative provide comprehensive financial planning services for an additional fee. Services include: retirement planning, tax planning, insurance review, and estate planning. AIO Financial is a member of First Affirmative.

OpenInvest: OpenInvest provides separately managed accounts for financial advisors. They provide impact reporting. As with AffirmativESG, investors need to work through a financial advisor to access this option. AIO Financial can provide access to OpenInvest.

Trillium: $1 million account minimums ($250k minimum and 0.6% fee, if you work through a financial advisor). They charge 1% of the assets they manage per year (the fee is lower with more assets). The accounts are customized to each individual's needs.

Boston Commons: $2 million account minimum. They charge 1% of the assets they manage per year (the fee is lower with more assets). The accounts are customized to each individual's needs. They have the option of investing in a pooled fund, which is not customized. The minimum account balances are lower, but they start at $2 million. The fees for the pooled fund start at about 1% and go down as you invest more.

Boston Trust: $3 million account minimum. They charge 1% of the assets they manage per year (the fee is lower with more assets).

Advisor Partners: $500k account minimum through a financial planner. They charge 0.3% of the assets they manage per year plus your advisor's fees (the fee is lower with more assets). They outsource shareholder advocacy. Accounts are held at Schwab and there are transaction fees for buys and sales - $4.95 per trade (which is passed onto the investor).

13.0 Example Portfolios

"Most people don't plan to fail, they fail to plan." John L Beckley

The appropriateness of a portfolio depends on several factors including risk tolerance, liquidity needs, and volatility.

There are many ways to construct a diversified portfolio. You can use combinations of mutual funds, ETFs, individual stocks, individual bonds, alternative investments and/or CDs.

A diversified SRI portfolio can be constructed completely out of SRI mutual funds and/or SRI ETFs. You can use a portion of SRI funds and a portion that are not SRI.

If an investor is not interested in SRI, the best investment strategy may be to construct their portfolio out of index ETFs (Exchange Traded Funds) with very low expense ratios.

For SRI and non-SRI portfolios, we recommend having broad exposure over many asset classes and rebalancing the accounts regularly (such as once every 3 to 6 months). If SRIs are not desired, there is no advantage to incurring additional expenses to invest in a managed mutual fund that, over time, will underperform the index.

Once an investment policy (or portfolio distribution) is defined, you can use SRI or non-SRI investments for each asset class.

Please read the prospectus of the investments or discuss them with your financial advisor before making any investments.

14.0 Investing Mechanics

"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case." Robert G. Allen

If you have any troubles or want any support – contact us and we will help:
aiofinancial.com/contact-us/

14.1 Where to Invest

To begin, if you do not have a brokerage account open an account at a place such as Charles Schwab, Vanguard or Fidelity.

Consider the transaction fees for the types of investments you will be using. We us Schwab because they have no transaction fee for the investment we use and they offer a wide variety of options (unlike Vanguard).

There are SRI management companies that will manage your funds in a separate account. The companies engage in shareholder advocacy on your behalf. The disadvantage is generally the high minimum amounts that are needed.

14.2 Consideration if Looking for an Advisor

If you feel like you need support there is no shortage of financial advisors. One of the most important things to know is how they are being compensated. Unfortunately, financial investment firms are often very unclear about the cost of their services and investment products. This lack of transparency and concealing of fees is an unfortunate reality.

There are many ways investment firms get compensated. They may receive: sales loads, surrender fees, management and administrative fees, 12b-1 fees, transaction fees, redemption fees, brokerage fees, inactivity fees, transfer fees, market impact costs and more. These fees directly reduce the return on your investments – they are costing the investor money. Many financial professionals are being compensated for selling products, such as annuities and life insurance, which may not be appropriate for their client.

One way to avoid this conflict of interest is to work with a fiduciary Fee-Only advisor. A fiduciary keeps their clients' best interests first as opposed to the majority of the financial sales people who receive commissions and are benefited by selling certain products. Fiduciaries are not compensated by selling product or earning money on commissions.

Fee-Advisors work in a number of different ways, including: hourly, assets under management (pay a percentage, usually about 1% per year of the assets being managed), lump sum (depending on the complexity of your situation). If you just need a check up and some occasional guidance, consider an hourly or short term lump sum arrangement.

The National Association of Personal Financial Advisors (NAPFA) is a national organization for Fee-Only financial advisors. There is a directory of advisors on their website.

Another designation to look for is a CFP (Certified Financial Planner). In addition to investing, a CFP can help you with retirement projections, tax planning, insurance review, estate planning, and education planning. Depending on your situation, this may be important.

AIO Financial is a fee-only financial planning firm, a member of NAPFA and their financial advisors have CFP designations.

14.3 Account Maintenance - Rebalancing

I recommend rebalancing your account at least every six months. By rebalancing I mean getting it back into the distribution of your target Asset Allocation. What this means is that you will be selling the investments that have done well during that period and buying investments that have not done as well. This forces you to buy low and sell high and improve the overall performance of your portfolio. It also keeps you from getting overexposed in any one area.

15.0 Resources

“Be Fearful When Others Are Greedy and Greedy When Others Are Fearful” - Warren Buffett

15.1 Websites

The following are some links that may be helpful:

AIO Financial (AIOfinancial.com) – AIO Financial is a fee only financial planning firm specializing in Socially Responsible Investing. They offer a free upfront meeting, webinars, blog and podcast.

Impact Financial Planners (ImpactFinancialPlanners.com) – Impact Financial Planners was created to help make Socially Responsible Investing (SRI) as easy as possible for investors who are concerned about what they invest in..

Impact Investing Firms (ImpactInvestingFirms.com) – Impact Investing Firms is a membership group of financial advising firms that offer SRI options for their clients.

USSIF (USSIF.org) – The Forum for Sustainable and Responsible Investment is the US membership association for professionals, firms, institutions and organizations engaged in sustainable, responsible, and impact investing. US SIF and its members advance investment practices that consider environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact.

Your Stake (yourstake.org) – YourStake is an impact investment evaluator. YourStake allows advisors to evaluate the impact of portfolios and compare them. They also provide a petition platform to help make an impact.

First Affirmative: AffirmativESG (firstaffirmative.com) – First Affirmative is a network of fee only financial advisors who specialize in SRI. They provide the AffirmativESG platform to their advisors that offers customized accounts.

Ethos (ethos.so) – Ethos is a platform to evaluate the expose of a portfolio and screen funds based on ESG criteria.

OpenInvest (openinvest.com) – OpenInvest provides asset management services for advisors. They provide separately managed accounts (through an advisor) and impact reporting for clients.

CSRIC (kaplanfinancial.com/wealth-management/csric) - The Chartered SRI Counselor, CSRIC®, program is a designation program for financial professionals. This program provides experienced financial advisors and investment professionals with a foundation knowledge of the history, definitions, trends, portfolio construction principles, fiduciary responsibilities, and best practices for sustainable, responsible, and impact (SRI) investments.

Social Funds (SocialFunds.com) – Social Funds is one of the largest personal finance site devoted to socially responsible investing.

Green America (GreenAmerica.com) – Green America economic action to solve social and environmental problems. Their mission is to harness economic power—the strength of consumers, investors, businesses, and the marketplace—to create a socially just and environmentally sustainable society. They provide a green directory.

NAPFA (NAPFA.org) - The National Association of Personal Financial Advisors - is a professional association for Fee-Only financial advisors—highly trained professionals who are committed to working in the best interests of those they serve. You can search for fee-only advisors throughout the US.

Principles for Responsible Investment (unpri.org) - The United Nations-supported Principles for Responsible Investment (PRI) Initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system.

Calvert Impact Capital (calvertimpactcapital.org) – Calvert Impact Capital offers notes that allow investors the opportunity to lend to microfinance organizations around the world.

Calvert Investments (calvert.com) - Calvertprovides mutual funds that invest in socially and environmentally responsible companies.

Domini Investments (domini.com) – Domini Investments provides socially responsible mutual funds.

Walden Investments (waldenassetmgmt.com/mutual-funds) – Walden Investments provides portfolio management services and mutual funds to socially responsive investors.

Pax World (paxworld.com) – Pax provides mutual funds that integrate environmental, social and governance (ESG) factors into investment analysis and decision making.

Green Century (greencentury.com) – Green Century offers mutual funds that invest in sustainable companies without any exposure to fossil fuel companies.

Parnassus Investments (parnassus.com) – Parnassus Investments provides SRI mutual funds.

Appleseed (appleseedfund.com) – Appleseed offers an SRI mutual fund.

Trillium P21 (trilliummutualfunds.com) – Trillium offers an SRI mutual fund.

Praxis (praxismutualfunds.com) – Praxis mutual funds investing with Mennonite principles.

iShares (ishares.com) – iShares (a Blackrock company) provides ETFs (exchange traded funds) many of which include ESG factors.

Envest (envestmicrofinance.org) – Envest is a for-profit global microfinance fund.

Shared Interest (sharedinterest.org) – Shared Interest provides loan guarantees for borrowers in South Africa.

Morningstar Office (morningstar.com) – Morningstar is an independent investment evaluator. They have sustainability factors as an evaluation criteria.

Charles Schwab (Schwab.com*)* – Schwab is a brokerage firm. It provides accounts where you can invest in a large variety of SRI mutual funds, ETFs and community investment notes.

Vanguard (Vanguard.com) - Vanguard is the world's largest mutual fund company. They act as a brokerage firm where you can make investment in Vanguard funds and SRI funds as well.

Fidelity (Fidelity.com) - Fidelity is a mutual fund company and a brokerage firm. Like Schwab and Vanguard, Fidelity offers accounts where you can invest in SRI.

15.2 For Advisors

15.2.1 Impact Investing Firms

Impact Investing Firms (ImpactInvestingFirms.com) – Impact Investing Firms is a membership group of financial advising firms that offer SRI options for their clients.

They provide hourly consulting to advisors. They will discuss implementing SRI in your practice and communication SRI to your clients. We can discuss available programs, tool, and systems to provide SRI to clients.

They also have a membership option which includes: access to live webinars, semi-annual fund Buy List, your profile is be published in their SRI advisor directory, access to their private forum, and get their quarterly newsletter.

15.2.2 YourStake

YourStake is an impact investment evaluator. YourStake allows advisors to evaluate the impact of portfolios and compare them. It is user-friendly and provides graphics that are easy for clients to understand. They show the exposure of a portfolio in different ESG areas and they show examples of shareholder advocacy for the funds that are held in the portfolio. You can dig several layers into the data if there is a particular issue of company you want to investigage.

One display option is a metaphor where they show the impact in very clear terms that your portfolio will have over time. Such as, number of cows saved, number of women running meeting, guns off the street, plastic out of the ocean, solar panels in use, etc.

They also provide a petition platform to help make an impact. Advisors can create or sign onto petitions with the backing of the assets they manage. These petitions can be used to make real change in companies.

For most advisors, the cost is $999 or $2,999 per year. There is a more expensive option for using their program to develop portfolios ($9,999/year). There is a significant discount for First Affirmative members. They make updates regularly and are open to recommendations.

15.2.3 First Affirmative – AffirmativESG

First Affirmative is a network of fee only financial advisors who specialize in SRI. They provide the AffirmativESG platform to their advisors that offers customized accounts. They have a questionnaire on their website that advisors can fill out with their clients and it produces a portfolio of about 350 individual stocks. The graphics and the process is very impressive for clients.

First Affirmative holds assets at Folio Investing. Advisors set up accounts through First Affirmative. All activity is done through First Affirmative. They are very active with shareholder advocacy. Holly Testa is in charge of advocacy and she does a great job.

You need to have $1M managed in by First Affirmative to become a member, be listed in their directory, have access to their forum, and get discount on certain software. They charge 0.4% of the assets you have with them on the AffirmativESG platform.

15.2.4 Ethos

Ethos is a platform to evaluate portfolios and funds based on the UN Sustainability Goals.

Ethos lets you select the causes you care about and get personalized ratings of companies, brands, employers and investments, based on hundreds of credible sources.

Ethos costs $240 or $480 per year.

15.2.5 OpenInvest

OpenInvest provides asset management services for advisors. They provide separately managed accounts (through an advisor) and impact reporting for clients. Assets can be held a Charles Schwab along with other brokerage houses.

You are required to have at least $5M in assets with OpenInvest. Their fees are based on the assets they manage. Currently, they do not engage in shareholder advocacy.

$5M at 0.3%
$10M at 0.28%
$25M at 0.2%

15.2.6 Morningstar Office

Morningstar is an independent investment evaluator. They have significantly expanded the number of sustainability factors that can be used to evaluate and screen funds. The ESG factors include:

- Sustainability rating
- Environmental risk
- Carbon risk score
- Carbon exposure score
- ESG engagement
- ESG risk score
- Gender & diversity
- Low carbon / fossil fuel free
- Renewable energy
- Arctic oil and gas exploration involvement
- Oil sands extraction involvement
- Votes counted, % Support, and % Against: climate change, environment, ESG governance arrangements, executive compensation, human and workers' rights, political influence, humane treatment of animals, etc
- 12 month average fossil fuel exposure, carbon risk score

15.2.7 CSRIC

The Chartered SRI Counselor (CSRIC™) certification is available through Kaplan Financial. The Chartered SRI Counselor, CSRIC®, program is a designation program for financial professionals. This program provides experienced financial advisors and investment professionals with a foundation knowledge of the history, definitions, trends, portfolio construction principles, fiduciary responsibilities, and best practices for sustainable, responsible, and impact (SRI) investments.

16.0 Thank You

"A goal without a plan is just a wish." Antoine de Saint-Exupery

Thank you very much for your interest in SRI and for reading "Sustainable, Responsible, Impact Investing Made Easy." If you would like more information about SRI, please sign up for our newsletter and follow our podcasts, ciswoa and blogs at www.impactfinancialplanners.com, www.aiofinancial.com, and www.impactinvestingfirms.com.

Please share your thoughts and comments. I would like to make the next version even better and more useful.

Feel free to email me (bill@aiofinancial.com) or you can connect with me on most social media channels.

Bill Holliday (right) and his brother-in-law, Saul (left) at migrant project in Caborca, Sonora, Mexico