SUSTAINABLE RESPONSIBLE IMPACT INVESTING

A PRACTICAL GUIDE FOR SOCIALLY CONSCIOUS INVESTORS

AIO FINANCIAL

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SUSTAINABLE, RESPONSIBLE, IMPACT INVESTING

A Practical Guide for Socially Conscious Investors

AIO Financial, LLC
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Disclaimer

This guide is intended to provide general information about Sustainable, Responsible, and Impact Investing (SRI). It is not a substitute for personalized financial advice from a Certified Financial Planner. While every effort has been made to ensure the accuracy of the information provided, the content may change over time, and no guarantees can be made.

We'd Love Your Feedback

I'd love to hear your thoughts. Was this guide helpful? Do you have suggestions for improvement? Your feedback is valuable and helps shape future editions.

Please email me at bill@aiofinancial.com or connect with me on social media.

Thank you for your interest in socially responsible investing—I hope this guide helps you make meaningful financial choices aligned with your values.

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1.0 Introduction to SRI

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

Sustainable, Responsible, Impact Investing (SRI) gives individuals the opportunity to align their investments with their values—and influence the world in the process. As this sector rapidly grows—outpacing traditional investments—it's becoming an increasingly practical and powerful tool for investors seeking both purpose and performance.

SRI allows you to invest in companies and funds that support the causes you care about, such as climate action, social justice, or campaign finance reform, while still aiming for competitive financial returns.

For financial advisors, understanding SRI opens the door to deeper client engagement. Simply helping clients see what companies they're invested in—and offering alternatives if those holdings conflict with their values—can build trust and alignment. Offering SRI options also allows advisors to tailor portfolios more closely to individual priorities.

This guide is designed to make SRI accessible. You don't need to overhaul your entire portfolio—just getting started with one investment aligned with your values can lead to greater awareness, involvement, and impact over time.

There are many levels of SRI participation. It might be as simple as switching to a member-owned credit union, investing in Calvert Community Investment Notes that support microcredit, or allocating a portion of your stock portfolio to a low-cost SRI index fund. Some investors go further, choosing funds that actively screen holdings, engage in shareholder advocacy, and support community lending.

This eBook is intended for both individual investors and advisors. While we'll briefly touch on individual stocks and separately managed accounts, the focus will be on practical SRI strategies using mutual funds, ETFs, and community investment options.

2.0 About the Author

"The best teachers are those who show you where to look but don't tell you what to see."
Alexandra K. Trenfor

Bill Holliday is a Certified Financial Planner™ (CFP®), Accredited Investment Fiduciary® (AIF®), and Chartered SRI Counselor™ (CSRIC®). He is also a member of the National Association of Personal Financial Advisors (NAPFA) and the founder of AIO Financial, a fee-only financial planning firm that specializes in Sustainable, Responsible, and Impact Investing (SRI).

AIO Financial supports financial education in Spanish at aiofinanzas.com, featuring live Zoom calls and courses.

His passion for SRI began during his service in the U.S. Peace Corps from 2002 to 2004 in Nicaragua, where he witnessed the powerful impact of microcredit on small businesses in underserved communities. Inspired by that experience, he spent the following year in Nogales, Sonora, Mexico helping launch a microfinance program for low-income families on the U.S.–Mexico border.

In 2012, Bill founded **ProMex Group**, a nonprofit dedicated to providing financial education in Spanish, primarily throughout Mexico. He continues to serve as its volunteer director. promexgroup.org

Bill currently lives in **Tucson, Arizona** and **Hermosillo, Sonora, Mexico**, and serves clients across the U.S. He enjoys traveling, spending time with his two daughters, and visiting extended family in Caborca, Mexico.

Bill Holliday, CFP®, AIF®, CSRIC™

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

“Be the change that you wish to see in the world.” Mahatma Gandhi

Sustainable, Responsible, Impact Investing (SRI) is an investment approach that seeks to generate both financial return and positive social or environmental outcomes. It allows individuals and institutions to align their investments with their personal values and contribute to meaningful change through the financial system.

SRI recognizes that where and how we invest matters. Investors can choose to support companies and projects that promote environmental sustainability, human rights, corporate responsibility, and social equity—while avoiding those that conflict with their values.

Other Terms You Might Hear

SRI goes by many names, reflecting different emphases or approaches. These include:

- Sustainable, Responsible, Impact Investing
- Socially Responsible Investing
- ESG Investing (Environmental, Social, and Governance)
- Ethical Investing
- Green Investing
- Responsible Investing
- Mission-Based Investing
- Values-Based Investing
- Double or Triple Bottom Line Investing
- Socially Conscious Investing
- Impact Investing

While these terms are often used interchangeably, each may carry slightly different meanings or strategies. For example, ESG investing typically emphasizes company performance on specific environmental, social, and governance metrics, while impact investing often focuses on measurable social or environmental outcomes.

SRI Is Not One-Size-Fits-All

Every investor brings a unique set of values, goals, and priorities. That’s why SRI strategies are flexible and can be tailored to individual preferences. Some investors focus on avoiding specific industries (like fossil fuels or tobacco), while others prioritize proactive support for companies addressing climate change, diversity, or human rights.

Ways to Build an SRI Portfolio

There are many paths to creating an SRI-aligned portfolio, including:

- **Individual Stocks** – Selecting specific companies that meet your criteria.
- **SRI Mutual Funds** – Professionally managed funds screened for ESG factors.
- **SRI ETFs** – Lower-cost, index-tracking funds that apply ESG filters.
- **Community Development Loan Funds** – Investments that support underserved communities through affordable housing, microfinance, and small business development.

- **Separately Managed Accounts** – Customized portfolios managed by professional asset managers.
- **Alternative Investments** – Including private equity, venture capital, or green bonds focused on sustainability.

Whether you're just getting started or looking to fine-tune your existing strategy, SRI offers tools to invest in ways that reflect what matters most to you.

4.0 Growth of SRI

“The great aim of education is not knowledge but action.” Hurbert Spencer

Sustainable, Responsible, and Impact Investing (SRI) is no longer a niche concept. It’s a rapidly expanding segment of the financial industry that is outpacing the growth of traditional investments. As of 2024, U.S. assets managed using Environmental, Social, and Governance (ESG) criteria surpassed $19 trillion—representing about 40% of all managed assets. That’s a 45% increase in just two years.

Why Is SRI Gaining Popularity?
Several key factors are driving this growth:

- **Wider Availability:** There are now more than 1,500 SRI funds worldwide, offering a wide range of strategies across sectors and asset classes.
- **Improved Performance:** As fund sizes grow and competition increases, costs are coming down—and many SRI funds are outperforming traditional peers, especially by avoiding underperforming sectors like fossil fuels.
- **Greater Transparency:** Investors have more access than ever to ESG data, making it easier to evaluate companies based on their environmental and social impact.
- **Rising Climate Awareness:** As concern about climate change deepens, more investors are divesting from fossil fuels and seeking alternatives.
- **Desire to Create Change:** Investors increasingly recognize the power of capital to influence corporate behavior on issues like climate policy, political spending, executive pay, and board diversity.

SRI is no longer just about avoiding harm—it’s about proactively using investments as a tool for positive change.

4.1 Degrees of SRI
There is no one-size-fits-all approach to socially responsible investing. For some investors, it’s a deeply values-driven strategy. For others, it’s a secondary filter applied after financial considerations. What matters is that the portfolio aligns with the investor’s goals, values, and comfort level.

Four Common Investor Profiles in SRI:

1. **Non-SRI Investors:** Prefer low-cost, broadly diversified portfolios using traditional ETFs or index funds. These investors prioritize minimizing fees and maximizing market exposure. (See Section 9.3.)
2. **Fully Committed SRI Investors:** Want portfolios that are 100% aligned with their values, avoiding all non-SRI holdings—even if some of those companies are the target of shareholder advocacy. (See Section 13.2.)
3. **Semi-SRI Investors:** Open to incorporating SRI as long as it doesn’t compromise performance or increase fees significantly. These investors might use SRI in U.S. equity allocations while using non-SRI ETFs elsewhere.

4. **Issue-Specific Investors:** Focused on one or two causes—such as climate change, women in leadership, or developing economies. They may fall into any of the above categories but want to ensure their portfolio addresses particular priorities. (See Section 13.1 for fossil fuel–free examples.)

4.2 Motivation for SRI
The motivations behind SRI are diverse and personal. For some, it's a matter of values. For others, it's part of an institutional mission. In addition to individuals, SRI investors include religious groups, nonprofits, endowments, foundations, and pension funds.

4.2.1 Avoiding Undesirable Companies
A common motivation for SRI is the desire to avoid investing in industries or companies that conflict with personal or organizational values.

Here are examples of large companies in the S&P 500 that many SRI investors choose to avoid:

Company	**Industry**	**Company**	**Industry**
Exxon Mobil	Integrated Oil & Gas	Raytheon	Aerospace & Defense
Chevron Corp	Integrated Oil & Gas	Marathon Petroleum	Oil & Gas Refining & Marketing
Bank of America	Banks	Archer-Daniels-Midland	Agricultural Products
Coca-Cola	Soft Drinks	Hess Corp	Integrated Oil & Gas
Philip Morris Intl	Tobacco	General Electric	Industrial Conglomerates
Pepsico	Soft Drinks	Northrop Grumman	Aerospace & Defense

If you're invested in a standard S&P 500 index fund, you may own shares in these companies without realizing it. SRI funds offer the opportunity to screen them out—or to influence their behavior through shareholder engagement.

4.2.2 Political Tool
Some investors use SRI as a way to push back against corporate political influence. Issues of concern include:
- Climate change denial and delay
- Undisclosed or excessive political contributions
- Overpaid executives relative to workers
- Military spending and weapons production

For example, General Electric has spent over $40 million on lobbying while avoiding federal income taxes—actions that raise red flags for many SRI investors. By reallocating capital, investors can support companies that better align with their values and encourage reform in others.

4.2.3 Specific Issues
Many investors use SRI to support causes they care deeply about. Some examples:
- **Faith-Based Investing:** Religious groups, such as Unitarians, Catholics, Mennonites, and Presbyterians, often avoid companies that conflict with their beliefs and instead support values-aligned industries.

- **Sudan and South Africa Divestment Campaigns:** Modeled on the successful divestment movement that helped end apartheid in South Africa, similar campaigns have emerged around Sudan and other human rights issues.
- **Monsanto and GMOs:** Concerns about transparency, food safety, and environmental risks have led some investors to avoid companies like Monsanto and advocate for GMO labeling and stronger safety standards.
- **Fossil Fuel Divestment:** Climate-focused groups like 350.org have called on institutions and individuals to divest from fossil fuels. This movement has gained traction with universities and faith-based endowments. SRI mutual funds and ETFs make it easy to build fossil fuel–free portfolios.
- **The "Carbon Bubble" Argument:** Financially, there is growing concern that fossil fuel companies are overvalued. If international climate goals are met, a large portion of known reserves will remain unburned—rendering them worthless. This could lead to a sharp devaluation of fossil fuel stocks, making divestment not just an ethical choice, but a smart financial move.

5.0 Three Major Components of SRI

“There are risks and costs to action. But they are far less than the long range risks of comfortable inaction.” John F Kennedy

Socially Responsible Investing is more than just avoiding “bad” companies. It typically includes three core components:

5.1 Screening

Using positive or negative filters to include or exclude companies based on specific environmental, social, or governance (ESG) criteria. Screening is the foundation of most SRI strategies.

Negative Screening: Excludes companies involved in certain industries (e.g., tobacco, fossil fuels, weapons, or gambling).

Positive Screening: Actively seeks out companies with strong ESG performance—such as environmental leadership, ethical labor practices, or board diversity.

You can apply screening through:

- Individual stocks
- SRI mutual funds
- SRI ETFs

5.2 Shareholder Advocacy

Shareholders can influence companies by voting on shareholder resolutions, engaging in dialogue with corporate leaders, and filing proposals. This can be done directly if you own individual stocks or indirectly through SRI mutual funds that actively engage with companies.
Examples of shareholder advocacy include:

- Pushing for climate risk disclosure
- Advocating for gender or racial diversity on boards
- Encouraging fair labor standards and ethical supply chains

5.3 Community Investing

This involves directing capital to underserved communities—often through community development financial institutions (CDFIs), credit unions, or community investment notes. The goal is to expand access to housing, healthcare, education, and business funding in low-income areas.

You can support community investing by:

- Using a member-owned credit union instead of a for-profit bank
- Purchasing Calvert Community Investment Notes
- Investing in SRI mutual funds with community-focused holdings

SRI in Practice

You don’t have to incorporate all three components to start with SRI. Many investors begin by choosing an SRI mutual fund or ETF that screens companies based on their values. Others may choose to open an account at a credit union or invest a portion of their portfolio in community development notes.

Over time, you may decide to explore shareholder advocacy or deepen your impact through more targeted strategies.

6.0 Screening

“You can’t calm the storm, so stop trying. What you can do is calm yourself. The storm will pass.” Timber Hawkeye

Screening is one of the foundational tools of Socially Responsible Investing. It involves selecting (or excluding) investments based on a company’s alignment with environmental, social, and governance (ESG) values.

There are two main types of screening used by SRI investors and funds:

6.1 Negative Screening (Exclusionary)

This approach avoids investing in companies that operate in industries or engage in practices deemed unethical or harmful. Common exclusions include:

- Fossil fuels
- Tobacco
- Firearms and weapons
- Gambling
- Alcohol
- Poor labor or human rights practices
- Animal testing for non-medical purposes

This method aims to withhold capital from companies that do not align with the investor's values—and to avoid profiting from them.

6.2 Positive Screening (Inclusionary)

Positive screening identifies companies that are leaders in ESG performance. These firms might:

- Use renewable energy
- Have diverse leadership
- Treat employees fairly
- Maintain ethical supply chains
- Promote transparency and corporate accountability

Some investors use a **“best-in-class”** approach, selecting companies that rank highest on ESG factors within their sector—even if the industry itself has environmental or social concerns.

6.3 Why It Matters

The screening process helps investors:

- Align their portfolios with their values
- Reduce exposure to companies at risk of ESG-related controversies or financial instability
- Influence corporate behavior through targeted investment or divestment

6.4 Financial Impact of Divestment

Divesting from harmful industries doesn’t just make an ethical statement—it can also have financial consequences for those companies:

- **Lower stock prices** can reduce a company’s borrowing capacity and public image.
- **Reduced investor interest** may push firms to adopt better ESG practices to regain favor.
- **Employee retention and recruitment** can be impacted if a company's share price underperforms.
- **Leadership accountability** may increase when poor performance leads to pressure from shareholders.

6.5 How to Implement Screening

Investors can apply screening through:

- **Individual Stock Selection** – Requires ESG research and ongoing monitoring.
- **SRI Mutual Funds** – Actively or passively managed funds with built-in ESG screens.
- **SRI ETFs** – Often use rules-based, index-style ESG filters at lower cost.

Screening is a powerful first step in building an investment portfolio that reflects your values—while maintaining financial discipline.

7.0 Shareholder Advocacy

"Someone is sitting in the shade today because someone planted a tree a long time ago."
Warren Buffett

Shareholder advocacy is one of the most impactful tools available to socially responsible investors. When you own shares in a company—either directly or through a mutual fund or ETF—you have the right to influence how that company operates.

This influence can be used to encourage better environmental practices, improved labor conditions, more diverse leadership, and greater corporate transparency.

7.1 How Shareholder Advocacy Works

Investors can engage with companies in several ways:

- **Voting Proxies:** All shareholders have the right to vote on issues presented at annual meetings. These include proposals on climate risk disclosure, board diversity, political spending, and executive compensation.
- **Filing Shareholder Resolutions:** Shareholders who meet minimum ownership thresholds can submit proposals to be voted on at shareholder meetings. Even proposals that don't pass can influence corporate behavior and attract media attention.
- **Engaging in Dialogue:** Investors or fund managers can meet directly with company leadership to raise concerns and suggest changes.
- **Partnering in Coalitions:** By joining advocacy coalitions, investors can amplify their influence and work alongside others to push for change.
- **Divestment:** Selling shares in a company may not provide direct engagement, but it sends a message and can reduce access to capital if widely adopted.

7.2 What to Look for in a Fund's Shareholder Advocacy

Not all funds engage in shareholder advocacy—and many large investment firms avoid controversial issues altogether by voting with management or abstaining.

When evaluating an SRI mutual fund or ETF, here are key questions to consider:

- Does the fund vote proxies on ESG issues?
- Does the fund file or co-file shareholder resolutions?
- Does the fund have dedicated staff responsible for engagement?
- Does the fund disclose its proxy voting record?
- Is the fund part of any investor coalitions?
- Does it publish annual impact or engagement reports?

These are signs that the fund is not just passively investing but actively working to improve the behavior of the companies it holds.

7.3 How AIO Financial Evaluates Shareholder Engagement

At AIO Financial, we use **Your Stake**—a platform that analyzes fund activity and transparency—to assess how engaged each investment is in shareholder advocacy.

We categorize funds into three levels:

- **None:** No meaningful engagement or proxy voting on ESG issues.
- **Base:** The fund votes proxies in alignment with ESG principles and may engage occasionally.
- **Deep:** The fund actively engages with companies, regularly files shareholder resolutions, and has dedicated staff or teams focused on corporate change.

This categorization helps us build portfolios that reflect our clients' values—not just through what companies are included, but through the actions taken to improve them.

Shareholder advocacy allows you to be more than a passive investor—you become a participant in shaping corporate responsibility. Whether you invest directly or through a fund, your voice can influence real change.

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 is a powerful yet often overlooked component of socially responsible investing. It directs capital to underserved communities—often those with limited access to traditional financial services—to support affordable housing, small businesses, education, healthcare, and job creation.

Through community investing, you earn interest on your investment while helping others access the resources they need to thrive. It's a direct way to reduce economic inequality and promote inclusive growth.

8.1 Community Development Financial Institution (CDFI) Structures
There are several ways to participate in community investing, depending on your desired level of involvement and risk tolerance:

Member-Owned Credit Unions and Community Banks
The simplest entry point is using a local or mission-focused credit union or bank that serves low-income communities. These institutions often offer:

- FDIC- or NCUA-insured accounts
- Checking, savings, CDs, and money market options
- Support for affordable housing, local development, and minority-owned businesses

Examples include Self-Help Credit Union, Hope Credit Union, and others listed by the Opportunity Finance Network.

Pooled Loan Funds
These are diversified investment funds that lend to nonprofits, cooperatives, and microfinance organizations across the globe. Examples include Calvert Impact Capital, Accion, and Oikocredit. They typically:

- Pay fixed interest every 6 months
- Have minimum investments starting around $1,000
- Offer defined maturity dates
- Are available through brokerage accounts (e.g., Calvert Notes)

Direct Lending to CDFIs
Some investors choose to lend directly to regional or issue-specific CDFIs. These organizations may focus on:

- Women's empowerment (e.g., ProMujer)
- Microfinance in Latin America (e.g., Envest)
- Affordable housing or small business support in specific U.S. cities

Direct lending often comes with:

- More transparency and project updates
- Higher impact, but higher risk
- Accredited investor requirements (in some cases)
- Less liquidity—most loans must be held to maturity

8.2 Community Investment Returns

Returns on community investments are typically modest—usually ranging from 1% to 4%—but the social return is substantial. These investments are often not correlated with public markets, offering diversification benefits.

It's important to understand that:

- Most are illiquid and should be held to maturity
- Some are uninsured or unsecured
- Many require that you be an accredited investor
- Others, like Calvert Notes, are accessible to retail investors

Start small and build as you become familiar with the options.

8.3 Green & SRI Bonds

Green bonds finance environmental projects like clean energy, sustainable agriculture, or climate resilience.

SRI bonds more broadly support social and environmental goals and may be issued by:

- Governments
- Corporations
- Municipalities
- Nonprofits

You can access green and SRI bonds through:

- Individual bond purchases
- Bond mutual funds or ETFs focused on ESG (e.g., from Calvert, Pax, Praxis, Saturna)

These offer competitive returns while helping fund the transition to a more sustainable economy.

Getting Started: Easy Entry Points

For investors who want to begin with small amounts or test the waters, platforms like **CNote**, **Kiva**, or **Wefunder** offer simple ways to support community or microfinance projects with as little as $25.

Even modest investments can have an outsized impact—while reinforcing the principle that money can be a force for good.

9.0 Evaluating Investments

"Long-term planning is often undervalued by our indefinite short-erm world." Peter Thiel

When choosing SRI investments, it's important to look beyond just the cause. Focus on:

- **Costs:** Avoid funds with loads (sales commissions). Choose low-cost, no-load mutual funds or ETFs. Institutional share classes (I-Class) offer lower expenses for larger investments.
- **Fund Type:**
  - **Mutual Funds** often provide deeper ESG screening and shareholder engagement.
  - **ETFs** tend to have lower costs and better tax efficiency.
- **Expense Ratios:** Small differences in fees can have a big impact over time. Aim for low-cost options unless you're getting extra value through impact or advocacy.
- **Performance:** Don't just chase past returns. Look at consistency, volatility, and how well the fund aligns with your goals.

At **AIO Financial**, we prioritize low-cost, high-impact funds that are well-aligned with client values and long-term growth.

10.0 Steps to SRI

"The journey of a thousand miles begins with a single step." – Lao Tzu

Transitioning to a Sustainable, Responsible, Impact (SRI) investment strategy doesn't have to be overwhelming. You can start small, with a few thoughtful changes, and build over time. Here's a practical guide:

10.1 Start with Your Priorities

Before adjusting your portfolio, reflect on what matters most to you. Are there issues you want to support or avoid—like climate change, gender equality, fossil fuels, weapons, or corporate influence in politics?

Use the **SRI Questionnaire** at the end of this section to clarify your values and identify what you'd like your investments to reflect.

10.2 Review What You Already Own

Many people don't know what companies or industries are in their current funds or portfolios. Start by identifying:

- What funds or stocks you hold
- Whether they align with your values
- Any exposure to companies or industries you want to avoid

Tools like **YourStake.org** (used by AIO Financial) can analyze your current holdings and identify their ESG impact, including categorizing funds by **no**, **base**, or **deep** shareholder engagement.

10.3 Evaluate Cost, Liquidity, and Diversification

- **Cost:** Lower expense ratios help preserve long-term returns. Avoid loaded funds and compare management fees across options.
- **Liquidity:** Most mutual funds and ETFs are liquid and easy to trade. Community investments may require a longer commitment.
- **Diversification:** Ensure your portfolio includes a variety of asset types (stocks, bonds, sectors, and regions) to manage risk.
- **Risk Tolerance:** Match your investments to your time horizon and comfort with volatility. A diversified portfolio can help smooth returns over time.

10.4 Reallocate Gradually

You don't have to overhaul your portfolio all at once. Many investors begin by:

- Replacing one or two index funds with SRI equivalents
- Divesting from fossil fuels or weapons manufacturers
- Adding a small allocation to community investment notes

Make changes at a pace that feels comfortable and review progress annually.

10.5 Work with an Advisor (Optional)

A financial advisor experienced in SRI can:

- Help align your investments with your values
- Guide you through trade-offs between impact, performance, and cost
- Provide access to institutional share classes or specialty funds

10.6 SRI Questionnaire – What Matters Most to You?

1. Which of the following issues do you care about?

☐ Climate change
☐ Fossil fuel divestment
☐ Gender and racial equity
☐ Weapons or military contractors
☐ Fair labor practices
☐ Corporate political influence
☐ Animal welfare
☐ Executive compensation
☐ Affordable housing
☐ Other: ______________________

2. Which industries or companies would you like to avoid in your investments?

☐ Oil, gas, coal
☐ Tobacco
☐ Firearms
☐ Private prisons
☐ GMO agriculture
☐ Big banks
☐ Fast fashion
☐ Other: ______________________

3. How important is shareholder engagement to you?

☐ Very important – I want funds that actively vote and engage
☐ Somewhat important – A mix of engagement and divestment
☐ Not important – I prefer funds that avoid harmful companies entirely

4. Would you like to allocate a portion of your portfolio to community investments?

☐ Yes – Even with lower returns, I want to support underserved communities
☐ Maybe – If it fits my overall goals
☐ No – I prefer market-rate returns and liquidity

5. Do you want your entire portfolio to follow SRI principles?

☐ Yes – I want everything aligned with my values
☐ Partially – I'm okay with some traditional investments
☐ No – I'm just exploring for now

11.0 Investment Options

"Do the best you can until you know better. Then when you know better, do better." – Maya Angelou

There are many ways to build a portfolio that aligns with your values. The right mix depends on your goals, risk tolerance, timeline, and how involved you want to be. Below is a summary of the primary types of SRI investment options.

11.1 Mutual Funds

SRI mutual funds are widely available and often provide robust ESG screening, shareholder engagement, and community investing components.

Pros:

- Actively managed
- Available for retirement accounts
- Deep ESG integration

Cons:

- Typically higher fees than ETFs
- Less tax-efficient than ETFs

11.2 Exchange-Traded Funds (ETFs)

SRI ETFs offer low-cost, diversified exposure with basic ESG screening.

Pros:

- Low expense ratios
- Traded throughout the day like stocks
- Tax-efficient

Cons:

- Less active engagement in shareholder advocacy
- Screening criteria may be limited

11.3 Community Investments

These include community development financial institutions (CDFIs), microfinance notes, and green bonds.

Pros:

- Direct impact on underserved communities
- Fixed interest payments

Cons:

- Lower returns
- Less liquid

(See Section 8 for more details)

11.4 Individual Stocks

Investors can create their own portfolios by picking companies with strong ESG practices.

Pros:

- Full control
- Can align precisely with values

Cons:

- Requires time and expertise
- Less diversification

11.5 Separately Managed Accounts (SMAs)

Offered by firms like Trillium or Aperio, SMAs allow for customized ESG screening and direct ownership of securities.

Pros:

- Fully customizable
- Tax-efficient strategies possible

Cons:

- High minimum investment
- Higher fees

11.6 Alternative Investments

This includes impact-focused private equity, venture capital, or real estate funds that support environmental or social goals.

Pros:

- Potential for high impact and returns

Cons:

- Illiquid
- Risky and often for accredited investors only

Each option has trade-offs. The key is to choose a combination that supports your financial goals while staying aligned with your values.

12.0 Active vs. Passive SRI Investing

"In investing, what is comfortable is rarely profitable." – Robert Arnott

When building an SRI portfolio, one of the key decisions is whether to use **active** or **passive** strategies—or a blend of both. Each has unique strengths and trade-offs, especially in the context of socially responsible investing.

12.1 Passive SRI Investing

What it is:

Passive SRI strategies typically track an ESG-screened index. These portfolios are broadly diversified and managed to match the performance of a benchmark.

Pros:

- Lower costs (expense ratios are usually minimal)
- Tax efficiency
- Transparent and rules-based
- Easy to access across asset classes

Cons:

- Limited shareholder engagement
- May still hold controversial companies depending on the index
- Limited customization

Passive SRI is a good starting point for investors who want a low-cost way to align part of their portfolio with general ESG principles.

12.2 Active SRI Investing

What it is:

Active SRI strategies involve a fund manager or team selecting securities based on ESG criteria, financial analysis, and impact potential. These funds may also engage in shareholder advocacy and community investing.

Pros:

- More rigorous ESG screening
- Potential for shareholder advocacy and proxy voting
- May include deep engagement and direct impact investments
- Greater flexibility in screening and issue-specific targeting

Cons:

- Higher management fees
- Risk of underperformance
- Requires more due diligence to evaluate manager impact

12.3 Finding the Right Fit

The choice between active and passive SRI depends on your goals:

- **Cost-conscious investors** often prefer passive ESG index funds for broad, low-cost exposure.
- **Values-driven investors** may lean toward active funds that engage with companies and exclude problematic industries.
- Many investors choose a **hybrid approach**, using passive funds for core exposure and active funds for targeted impact.

At AIO Financial, we evaluate each fund's actual engagement using tools like **YourStake.org**, which categorizes funds based on their level of advocacy—none, base, or deep—so clients can choose what fits their values and impact preferences.

13.0 Building an SRI Portfolio

"The secret of getting ahead is getting started." – Mark Twain

Once you've clarified your priorities, reviewed your current holdings, and selected your investment approach (active, passive, or blended), the next step is to put together a diversified portfolio that aligns with your values and goals.

13.1 Key Considerations

Asset Allocation

Your mix of stocks, bonds, and other assets should match your time horizon, financial goals, and risk tolerance. SRI investment options exist across most asset classes, including U.S. and international equities, fixed income, and real estate.

Screening Criteria

Choose funds or accounts that reflect your values. These may include:

- Negative screens (e.g., no fossil fuels, weapons, tobacco)
- Positive screens (e.g., companies with strong labor practices or environmental leadership)
- Thematic focus (e.g., gender equity, renewable energy, low-income housing)

Shareholder Engagement

If you value advocacy, look for funds with high levels of engagement. Tools like YourStake categorize funds as:

- **None** – minimal or no shareholder engagement
- **Base** – basic proxy voting and occasional engagement
- **Deep** – active engagement and leadership in ESG initiatives

Community Investments

Consider allocating a small portion of your portfolio to investments that provide capital to underserved communities or sustainable development projects. These often generate lower financial returns but higher social impact.

Accessibility & Liquidity

Make sure your investments are appropriate for your situation. Some community notes or alternative assets are illiquid and may require a multi-year commitment.

13.2 Sample SRI Portfolio Construction Process

A simplified step-by-step process might look like this:

1. **Define your SRI goals** – What do you want your money to support or avoid?
2. **Assess your current holdings** – What do you already own, and does it align?
3. **Select your approach** – Active, passive, or blended?
4. **Choose investment vehicles** – Mutual funds, ETFs, community investments, etc.
5. **Build a diversified mix** – Spread across different asset types and geographies.
6. **Evaluate impact and fees** – Use screening and engagement tools.
7. **Monitor and adjust over time** – Rebalance annually, update your impact goals.

13.3 Professional Support

While many investors build SRI portfolios on their own, working with an advisor who understands ESG and SRI can provide personalized support, access to institutional share classes, and advanced portfolio tools.

AIO Financial helps clients evaluate their holdings using tools like YourStake and builds custom portfolios to meet both financial and social goals.

14.0 Monitoring and Adjusting Your SRI Portfolio

"Success is the sum of small efforts, repeated day in and day out." – Robert Collier

Creating an SRI portfolio is not a one-time event—it's an ongoing process. Just like your financial goals may shift over time, so might your values, the impact you want to have, and the tools available to express those priorities.

14.1 Ongoing Monitoring

Here are a few things to regularly check:

- **Performance:**
  Make sure your portfolio continues to meet your financial goals. Compare returns to benchmarks and evaluate consistency over time—not just short-term performance.
- **Expense Ratios:**
  Review fund costs periodically to ensure you're not overpaying for performance or impact.
- **ESG Engagement & Screening:**
  Confirm that your investments are still aligned with your values. Fund strategies, screens, or management can change. Tools like YourStake.org can help you stay informed about how your funds are engaging on ESG issues.
- **Portfolio Allocation:**
  Rebalancing your portfolio once or twice a year helps maintain your desired risk level. Shifts in the market or your life circumstances might call for changes in asset mix.

14.2 Adjusting Your Portfolio

You may need to adjust your portfolio when:

- Your **financial situation changes** (income, expenses, retirement timing)
- Your **values evolve** or you want to emphasize different impact areas
- Better investment options become available (lower cost, deeper engagement, new themes)
- A fund you hold **no longer aligns** with your goals

Rebalancing doesn't always mean big changes. Sometimes a small shift in allocations or swapping out a fund is enough to keep things aligned.

14.3 Staying Informed

- Subscribe to newsletters or blogs from SRI-focused firms or fund companies.
- Review fund updates and shareholder reports.
- Follow ESG news to stay informed on issues affecting your investments.

AIO Financial offers periodic reviews with clients, customized reporting, and tools to help assess both performance and impact over time.

15.0 Common Myths and Misconceptions About SRI

"The greatest enemy of knowledge is not ignorance, it is the illusion of knowledge." – Stephen Hawking

Despite the growth of Sustainable, Responsible, and Impact Investing (SRI), several myths still persist. Understanding the truth behind these misconceptions can help investors make more confident and informed decisions.

Myth 1: SRI Means Sacrificing Performance
Reality:
Numerous studies and real-world data show that SRI funds can perform as well as—or sometimes better than—traditional investments. In fact, avoiding underperforming sectors (like fossil fuels) has helped many ESG funds outperform in recent years. Performance depends more on fund strategy, costs, and diversification than on whether it's ESG-focused.

Myth 2: SRI Is Only for the Wealthy or Institutions
Reality:
SRI is accessible to everyday investors through low-cost ETFs and mutual funds, often with minimum investments under $100. Robo-advisors, employer-sponsored plans, and even retirement accounts (IRAs) now offer SRI options.

Myth 3: It's Just Marketing or "Greenwashing"
Reality:
While greenwashing does exist, tools like **YourStake.org** help cut through the noise. They provide transparency about how funds actually vote, screen, and engage. Informed investors and advisors can now hold fund managers accountable.

Myth 4: You Can't Make a Difference
Reality:
Investors can make a difference in several ways:
- Through **screening**, by directing capital away from harmful industries
- Through **shareholder advocacy**, by influencing corporate behavior
- Through **community investing**, by funding underserved areas

SRI is a way to align your money with your values—and create tangible social or environmental impact.

Myth 5: SRI Is Just About the Environment
Reality:
While environmental concerns are important, SRI includes a wide range of issues:
- Labor practices
- Board diversity
- Political lobbying
- Community development
- Human rights
- Corporate governance

You can focus your portfolio on the issues that matter most to you.

16.0 Final Thoughts and Thank You

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

Thank you for taking the time to explore Sustainable, Responsible, and Impact Investing (SRI). Whether you're an individual investor or a financial advisor, your interest in aligning money with values is a powerful step toward shaping a more just, sustainable world.

This guide aimed to provide you with practical tools, thoughtful questions, and a flexible framework to begin or deepen your SRI journey. Remember, there's no perfect portfolio—only one that fits your goals, your values, and your circumstances. Start where you are, stay informed, and adjust as needed.

At **AIO Financial**, we're committed to helping people invest with purpose. If you'd like personalized support or access to screening tools like YourStake.org, we're happy to help.

We'd love your feedback so we can improve this guide in future editions. Please feel free to reach out:
Email: bill@aiofinancial.com
Website: aiofinancial.com
Facebook: facebook.com/ExpatPlanners

Thank you again—and may your financial journey reflect the world you want to live in.

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