2026 EDITION

SUSTAINABLE, RESPONSIBLE, IMPACT INVESTING

A Practical Guide for
Socially Conscious Investors

AIO FINANCIAL

Bill Holliday, CFP®, AIF®, CSRIC®

AIOFINANCIAL.COM

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How to Use This Guide

You do not need to read this front to back.

If you are new to the topic and want the landscape, read Chapters 1 through 4. If you are mostly worried about whether values-aligned investing will cost you money, go straight to Chapter 5 — that is the question most people actually came for, and it deserves an honest answer rather than a reassuring one.

If you already own investments and want to know what to do next, start at Chapter 9, fill out the values worksheet, and work forward. If you suspect a fund you own is not doing what its name suggests, Chapter 8 is the one you want.

Two things worth saying up front about the tone of this guide.

First, we have tried to be honest rather than promotional. Sustainable investing has been oversold in both directions — by marketers who claim it always outperforms, and by critics who claim it is pure theater. Neither is true, and we say so throughout, including in places where the honest answer is less flattering to our own line of work.

Second, this is written for a specific moment. The 2026 environment for sustainable investing is materially different from the 2021 environment, both in the market and in Washington. A guide that ignored that would be useless. Chapter 3 addresses it directly.

Contents

CHAPTER 1

Why This Guide Exists

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

Almost every investor eventually asks some version of the same question: *what is my money actually doing while I am not looking at it?*

It is a reasonable question, and for most of the history of retail investing it had no good answer. You bought a mutual fund, the fund bought several hundred companies, and the relationship ended there. If you cared about climate change, or about weapons manufacturing, or about how a company treats the people who work for it, there was no practical way to express that through a brokerage account.

That is no longer true. There are now hundreds of funds in the United States built around environmental, social, and governance criteria, along with community investment notes, green bonds, shareholder engagement programs, and portfolio analysis tools that will tell you, holding by holding, what you own and what those companies do. The infrastructure exists.

What has not kept pace is clear information about how to use it. Most of what is written about sustainable investing falls into one of two piles. The first is marketing — glossy, uncritical, and allergic to trade-offs. The second is political commentary, which treats the whole subject as a proxy war and is rarely of any use to somebody trying to decide what to hold in an IRA.

This guide is meant to be the third thing: a practical account of what these strategies are, what they can and cannot do, what they cost, how to tell a serious fund from a repackaged one, and how to build a portfolio that reflects your priorities without abandoning basic investment discipline.

1.1 What This Guide Assumes About You

We assume you are an individual investor, or an advisor working with individual investors, and that you already understand roughly what a mutual fund is. We assume you are investing for long-term goals — retirement, education, a legacy — rather than trading.

We also assume that you care about returns. This matters, because a certain strain of writing on this topic implies that values-driven investors have stopped caring about money. In our experience that describes almost nobody. The investors we work with want their portfolios to reflect their priorities *and* to fund their retirement. Those goals are usually compatible. Where they are not, we say so.

1.2 You Do Not Have to Do This All at Once

The single most common reason people never start is that they imagine it requires rebuilding everything.

It does not. There is an enormous range of participation here, and the entry points are genuinely small:

- Moving your checking account to a member-owned credit union or a community development bank. This takes an afternoon and costs nothing.
- Replacing one index fund in your portfolio with a screened equivalent.
- Putting a small, defined slice — one or two percent — into a community investment note.
- Simply finding out what you already own. Most people have never looked, and the exercise is free.

Any one of these is a legitimate starting point. Investors who begin with one change tend to make more of them later, because the first change is what turns an abstraction into something they can see on a statement.

> **A note on the word "impact"**
>
> Buying shares of a public company on the open market does not send money to that company; it sends money to whoever sold you the shares. This is the strongest criticism of screening as an impact strategy, and it is a fair one. It is also why this guide spends real time on shareholder advocacy and community investing, where the causal chain between your dollar and an outcome is much shorter. Chapter 4 takes this apart properly.

CHAPTER 2

What SRI Is — and What All Those Acronyms Mean

> *"Be the change that you wish to see in the world."*
> — Attributed to Mahatma Gandhi

Sustainable, Responsible, Impact investing — SRI — describes any investment approach that considers the social and environmental consequences of a business alongside its financial characteristics.

That is a wide tent, and the terminology inside it is a mess. The same strategy gets four names depending on who is selling it, and two funds using identical language can hold very different things. Before anything else, it is worth untangling the vocabulary, because a great deal of confusion in this field is purely linguistic.

2.1 The Terms, and What They Actually Signal

Term	What it usually signals
SRI (Sustainable, Responsible, Impact)	The broad umbrella. Historically meant values-based exclusion; now used for the whole field.
Socially Responsible Investing	The older usage. Usually implies exclusions — tobacco, weapons, fossil fuels — as the primary tool.
ESG Investing	A data-driven approach that scores companies on environmental, social, and governance factors. Often framed as risk management rather than ethics. An ESG fund may hold an oil company that scores well against other oil companies.
Impact Investing	Capital deployed with a specific, measurable social or environmental outcome as an explicit objective. Usually involves private markets, community loan funds, or direct investment.
Ethical / Faith-Based Investing	Exclusions derived from a religious or moral framework rather than an environmental one.
Green Investing	Environmental focus specifically — climate, energy, water, biodiversity.
Thematic Investing	Concentrated exposure to one theme: clean energy, water, gender equity, affordable housing.
Values-Aligned Investing	A softer, increasingly common substitute for "ESG," adopted partly to avoid political baggage.

The distinction that matters most in practice is between **ESG as risk management** and **SRI as values expression**, because they can lead to opposite portfolios.

An ESG risk analyst asks: does this company's environmental exposure threaten its future earnings? That question can produce a portfolio holding energy companies, defense contractors, and industrial polluters

— as long as they manage those risks better than their peers. This is the "best-in-class" approach, and it is what many large fund complexes mean by ESG.

A values-driven investor asks a different question: do I want to own this? That question produces exclusions, and it does not care whether an oil company is the best-managed oil company.

Neither approach is wrong. But an investor who wants the second and buys the first will be unhappy, and this mismatch is the single most common disappointment we see. Chapter 8 covers how to tell which one you are actually buying.

2.2 One Important Piece of Vocabulary Is Disappearing

The acronym "ESG" is falling out of commercial use in the United States. In the US SIF Foundation's 2025/2026 industry survey, one in four respondents said they had stopped using the term altogether, and 29 percent said they had reframed their work explicitly around financial materiality.

This is worth knowing for a practical reason: a fund dropping "ESG" from its name in 2025 or 2026 did not necessarily change its strategy. Many did not. Some rebranded to avoid political attention, some to comply with fund-naming rules, and some genuinely narrowed their mandate. **You cannot tell from the name.** You have to read the prospectus, which is a theme you will encounter repeatedly in this guide.

2.3 SRI Is Not One Thing, and You Do Not Have to Pick a Camp

In practice, investors sort themselves into a few recognizable patterns. None is more legitimate than the others.

1. **The unconvinced.** Prefer low-cost, broadly diversified traditional index funds and are not persuaded that screening adds value. This is a defensible position and this guide is not written to argue anyone out of it.
2. **The fully committed.** Want every holding to reflect their values, and accept somewhat higher costs and a narrower opportunity set to get there.
3. **The pragmatist.** Willing to use screened funds where the cost and diversification are comparable, and traditional funds where they are not. In our experience this is the largest group by a wide margin.
4. **The issue-focused.** Care intensely about one or two things — fossil fuels, weapons, prison operators, board composition — and are relatively indifferent to the rest. This group is often best served by a targeted exclusion rather than a broad ESG fund.

The fourth pattern is worth calling out because it is so frequently mishandled. An investor who cares specifically about fossil fuels does not necessarily want a broad ESG fund, which may hold energy companies on a best-in-class basis. They want a fossil-fuel-free fund, which is a different and more precisely defined product. Getting this right is largely a matter of asking the right question at the start.

CHAPTER 3

Where the Market Actually Stands in 2026

> *"The great aim of education is not knowledge but action."*
> — Herbert Spencer

Any guide written before about 2023 will tell you that sustainable investing is growing explosively. That was true then. It is not a fair description of the present, and an investor making decisions on the strength of a stale growth story is being poorly served.

Here is the honest picture.

3.1 The Size of the Market

The US SIF Foundation, which has tracked this field for thirty years, put the total US investment market at **$61.7 trillion** in its 2025/2026 Trends Report, of which **$6.6 trillion** — about **11 percent** — was identified or marketed as sustainable or ESG. That was a slight increase from $6.5 trillion the year before.

Separately, **$42.7 trillion**, or 69 percent of the total market, was covered by some form of active stewardship policy — meaning the manager has a stated approach to proxy voting and corporate engagement. That figure is much larger than the "sustainable assets" number, and the gap between the two is one of the more interesting facts in the field. Engagement is now mainstream in a way that exclusion is not.

Retail-accessible funds are a much smaller slice. US sustainable mutual funds and ETFs held roughly **$398 billion** at the end of June 2026, a record, up about 13 percent from $351 billion three months earlier.

> **If you have seen much larger numbers**
>
> Older guides — including earlier editions of this one — cited figures in the $17 to $19 trillion range and described sustainable assets as roughly 40 percent of the US market. Those numbers came from a survey methodology that US SIF has since abandoned in favor of one based on public SEC filings and disclosed evidence. The methodologies are not comparable, and the older figures substantially overstated the market as most investors would define it. We have corrected them here.

3.2 Flows Have Been Negative for Three Years, and Have Just Turned

Money has been leaving US sustainable funds since 2022. US sustainable funds recorded fourteen consecutive quarters of net outflows through the first quarter of 2026. Globally, 2025 was the first full calendar year of net outflows on record, at roughly $84 billion, though Morningstar cautioned that a large share of that reflected UK institutional investors moving assets out of pooled funds into custom mandates that its fund data does not capture — a bookkeeping effect rather than an exit.

That streak ended in the second quarter of 2026, when US sustainable funds returned to positive net flows. The recovery was narrow: it went almost entirely into a small number of low-cost passive strategies, while actively managed sustainable funds recorded their thirteenth straight quarter of redemptions.

The pattern mirrors the broader fund industry, where investors have been steadily migrating from expensive active products toward cheap index products. Sustainable investing is not exempt from that gravity, and Chapter 5 explains why cost turns out to be the most reliable lever available to you.

3.3 The Political and Regulatory Environment Has Changed Substantially

This is the part most guides skip. It should not be skipped, because it affects what products exist, what your 401(k) offers, and what disclosure you can expect.

Federal securities regulation

The SEC has stepped back from ESG rulemaking. In 2025 it withdrew its proposed ESG disclosure rule for investment advisers and funds — the rule that would have required standardized disclosure of ESG strategies in prospectuses and brochures, and which was intended as the principal anti-greenwashing tool. In March 2025 the Commission voted to end its defense of the 2024 climate-related disclosure rule in litigation, and in May and June of 2026 it formally proposed rescinding that rule entirely, with a comment period that closed in August 2026.

The practical consequence for you: **the standardized, comparable disclosure that would have made greenwashing easy to detect is not coming in the near term.** The burden of verification sits with the investor and the advisor. That is a large part of why Chapter 8 exists.

Retirement plans

The Department of Labor has moved to rescind and replace the 2022 rule that permitted retirement plan fiduciaries to consider ESG factors. It has also signaled targeted enforcement: in 2026 the head of the Employee Benefits Security Administration publicly emphasized enforcement priorities around ESG in 401(k) plans, and the Department issued guidance stating that proxy voting decisions in ERISA plans must rest on risk-and-return considerations rather than nonfinancial factors. A proposed rule on fiduciary duties in selecting 401(k) investment options is pending and could affect whether sustainable options appear on plan menus at all.

If your employer has quietly removed an ESG option from your plan, this is very likely why. Chapter 11 covers what you can do about it.

State law

Roughly two-thirds of states have enacted some form of legislation restricting government contracting or investment with firms deemed to "boycott" particular industries, most commonly fossil fuels and firearms. Other states restrict the use of ESG factors in public pension investment.

That trend hit a significant obstacle in February 2026, when a federal district judge in Texas struck down Senate Bill 13 — the 2021 law that served as the model for much of this legislation — holding it facially overbroad under the First Amendment and unconstitutionally vague under the Fourteenth. The ruling is being watched closely as a possible template for challenges in other states.

For an individual investor, none of this directly restricts what you may buy in a taxable account or an IRA. It matters because it shapes what asset managers are willing to offer and how loudly they are willing to talk about it.

3.4 What to Take From All of This

Three things.

The field is durable but no longer growing quickly. Assets have held roughly flat through a period of sustained political pressure, which is a more meaningful signal than the boom-years growth rate. Investor interest, measured by survey, remains high; the willingness of institutions to advertise it has fallen.

Product risk is real. Funds have closed, merged, and rebranded in large numbers. When you select a fund, small and shrinking is a genuine risk factor — a closure or merger is a taxable event in a taxable account and a forced decision everywhere else.

Verification is now your job. With federal disclosure rules withdrawn, there is no standardized label coming to tell you whether a fund does what it says. This is inconvenient, but it is manageable, and the rest of this guide is largely about how to manage it.

CHAPTER 4

The Three Levers of Impact

> *"There are risks and costs to action. But they are far less than the long-range risks of comfortable inaction."*
> — John F. Kennedy

Sustainable investing offers three distinct mechanisms for affecting the world. They work differently, they have different evidence behind them, and most investors use only the first while assuming it does the work of all three.

They are **screening**, **shareholder advocacy**, and **community investing**. It is worth understanding each on its own terms, including its limitations.

4.1 Screening: Choosing What You Own

Screening means applying filters to include or exclude investments based on what the underlying companies do.

Negative screening (exclusionary)

The oldest and most common approach: refuse to hold certain industries. Typical exclusions include fossil fuel extraction, tobacco, firearms and weapons, gambling, private prison operators, and companies with documented labor or human rights violations.

Exclusion is straightforward to understand and easy to verify — you either own the company or you do not. Its limitation is that a portfolio defined by what it excludes can drift meaningfully from the broad market, and that drift can run in either direction.

Positive screening (inclusionary and best-in-class)

Rather than excluding the worst, positive screening seeks out leaders: companies with strong environmental performance, credible labor practices, transparent governance, or diverse boards.

"Best-in-class" is a specific and frequently misunderstood variant. It selects the highest-scoring companies *within each sector*, which means the resulting portfolio keeps market-like sector weights — including energy, mining, and defense. It is popular with institutions because it limits tracking error against a benchmark. It regularly disappoints retail investors who assumed they were buying exclusion.

Thematic screening

Concentrated exposure to a specific theme — renewable energy, water infrastructure, sustainable agriculture, affordable housing. These funds are the most direct expression of a priority and also the most concentrated, and they carry real sector risk. Clean energy funds in particular have had a brutal run since 2021, hit hard by rising interest rates in a capital-intensive sector. Investors sometimes discover the concentration only after it works against them.

The honest case for and against screening

Against: buying a stock on the secondary market transfers money to the previous owner, not to the company. Your purchase does not fund the business, and your sale does not defund it. Academic work on divestment generally finds that the direct effect on a large company's cost of capital is small, because there is always a buyer.

For: three arguments hold up reasonably well.

- **Alignment.** Independent of any effect on the company, many investors simply do not want to profit from certain businesses. This is a coherent preference and does not require an impact justification.
- **Risk.** Some exclusions are also risk decisions. The "carbon bubble" argument — that reserves which cannot be burned under any plausible climate policy are already carried at values that assume they will be — is a valuation argument, not only an ethical one. Reasonable people disagree about it.
- **Aggregate signal.** Divestment campaigns have historically worked less through capital markets than through legitimacy: they make a business politically costly to defend. The South African precedent is usually cited here, and the mechanism was reputational and political more than financial.

Our view, offered as a view: screening is best understood as primarily an alignment tool with a secondary risk-management case, not as a lever that moves large public companies on its own. If direct impact is what you want, keep reading.

4.2 Shareholder Advocacy: Using What You Own

This is the mechanism most retail investors have never considered, and it has the clearest causal chain to corporate behavior.

When you own shares — directly or through a fund — you hold governance rights. Those rights can be exercised.

How it works in practice

- **Proxy voting.** Every shareholder votes on matters put to the annual meeting: director elections, executive compensation, auditor ratification, and shareholder proposals on things like climate risk disclosure, political spending, and workforce practices. If you hold funds, your fund manager votes on your behalf — which means the manager's voting record is, in a real sense, your voting record.
- **Filing shareholder resolutions.** Shareholders meeting minimum ownership and holding-period thresholds can put proposals on the ballot. Proposals frequently succeed by failing: a resolution drawing 30 percent support often produces a negotiated change without ever passing.
- **Direct engagement.** Large holders meet privately with management. This is where most actual change happens, and it is almost entirely invisible from the outside — which is why disclosure of engagement activity matters when you evaluate a fund.

- **Coalitions.** Investors coordinate through groups such as Ceres, the Interfaith Center on Corporate Responsibility, and Climate Action 100+, aggregating small holders into a position management cannot ignore.

Why this is the strongest lever available to a fund investor

Screening removes you from the conversation. Engagement keeps you in it. An investor who sells every oil company has no vote at any oil company; an investor who holds a small position and engages does. This is a genuine strategic tension inside sustainable investing, and thoughtful people land on both sides of it.

The practical implication is that **the level of engagement is a real product differentiator, and it is one of the few that is objectively checkable.** Proxy voting records are public. Engagement reports are published or they are not.

Questions to ask about any fund

- Does the fund publish its proxy voting record, and does it actually vote in favor of ESG-related shareholder proposals — or does it vote with management as a matter of course?
- Does it file or co-file shareholder resolutions?
- Does the manager employ dedicated stewardship staff, or is engagement handled off the side of an analyst's desk?
- Does it publish an annual engagement or stewardship report with specific outcomes, rather than aspirational language?
- Is it a member of any investor coalitions?

A fund that screens aggressively but votes with management on every proposal is doing less than its marketing suggests. This is common. It is also easy to detect.

> **How AIO Financial evaluates engagement**
>
> We use YourStake, a third-party portfolio analysis platform, to assess how engaged a fund actually is, and we sort funds into three bands: **none** (no meaningful ESG proxy voting or engagement), **base** (votes proxies consistently with stated ESG principles, occasional engagement), and **deep** (actively engages, files or co-files resolutions, maintains dedicated stewardship staff). We disclose that we are a user of this tool; we have no financial relationship with it beyond a subscription.

4.3 Community Investing: Where the Dollar Actually Moves

Community investing is the smallest of the three levers by assets and the largest by directness. Here the causal chain is short: your money is lent to a specific institution, which lends it to specific borrowers, and you can read about what they did with it.

This is the part of sustainable investing least vulnerable to the "your purchase does not fund anything" critique, and it is the part most investors have never heard of.

Entry points, from simplest to most involved

Member-owned credit unions and community development banks. The lowest-friction option in this entire guide. Deposits are insured by the NCUA or FDIC within the usual limits, the products are ordinary — checking, savings, CDs, money market — and the institution's lending is directed toward underserved communities. Certified community development financial institutions can be located through the Opportunity Finance Network or the CDFI Fund's public list.

Pooled community investment notes. Diversified funds that lend to nonprofits, cooperatives, affordable housing developers, and microfinance institutions. Calvert Impact's Community Investment Note is the best-known retail-accessible example. These typically pay fixed interest, offer a choice of maturities, and have minimums starting near $1,000. They are **not** FDIC insured and are not deposits — they are unsecured debt of the issuer, and you are taking issuer credit risk.

Direct lending to a specific CDFI. More transparency, more concentration, more risk. Often restricted to accredited investors, usually illiquid to maturity.

Small-dollar platforms. Kiva and similar platforms allow participation at $25. Kiva loans are generally not investments — they are interest-free and repayment is not guaranteed — but they are an unusually good way to see the mechanism up close.

Returns, risk, and the honest trade-off

Community investment notes have historically paid modest fixed rates, generally in the low single digits, with the rate depending on the term you select and the prevailing rate environment. Check current rates directly with the issuer; do not rely on a figure printed in any guide, including this one.

The trade-offs are real and should be stated plainly:

- **Not insured.** These are not bank deposits. If the issuer fails, you are a creditor.
- **Illiquid.** Most should be assumed held to maturity. Do not put emergency reserves here.
- **Below-market returns are the point, not a defect.** You are accepting a lower financial return in exchange for a social one. Size the allocation accordingly.
- **Low correlation.** Because the returns are contractual rather than market-driven, they tend not to move with equities — a genuine diversification benefit within the limits of the allocation.

A common approach is one to five percent of a portfolio, sized so that a total loss would be disappointing rather than damaging.

Green and social bonds

Green bonds finance designated environmental projects; social and sustainability bonds cover a broader range of outcomes. Issuers include sovereigns, municipalities, corporations, and supranational institutions such as the World Bank.

The thing to know is that the "green" label is largely self-designated. Standards such as the ICMA Green Bond Principles are voluntary, and use-of-proceeds reporting varies widely in quality. Green bonds are a legitimate instrument, but the label alone is not verification — the same caution that applies to fund names applies here.

4.4 You Do Not Need All Three

Most investors start with screening because it is the easiest to implement inside an existing brokerage account. Many stop there.

If you want the three levers ranked by directness of impact per dollar, the order is roughly the reverse of the order in which people adopt them: community investing first, shareholder advocacy second, screening third. If you want them ranked by ease and liquidity, the order flips. A portfolio that uses screened funds for the core, deliberately chooses managers who engage, and carves out a small community allocation is using all three, and it is not a complicated portfolio to run.

CHAPTER 5

What the Evidence Says About Performance

> *"In investing, what is comfortable is rarely profitable."*
> — Robert Arnott

This is the chapter most readers turn to first, and it is the one where guides in this field are least reliable. So let us be direct.

There is no credible evidence that sustainable investing systematically produces higher returns, and no credible evidence that it systematically produces lower ones. What it produces is a portfolio that differs from the market in composition, and therefore differs in return — sometimes favorably, sometimes not, depending mostly on which sectors happen to be working.

Anyone who tells you otherwise, in either direction, is selling something.

5.1 What the Data Actually Shows

The results flip depending on the window you choose, which is itself the most useful fact in this chapter.

Morgan Stanley's Institute for Sustainable Investing, analyzing Morningstar data, found that sustainable funds **outperformed** traditional funds in the first half of 2025, and then **narrowly trailed** them in the second half — median returns of 5.3 percent against 5.5 percent. Over a longer window, the same research found a hypothetical $100 invested in sustainable funds in December 2018 would have grown to $154 by mid-2025, against $145 for traditional funds.

Those two findings are not in conflict, and neither settles anything. They describe a strategy that tracks close to the market with meaningful period-to-period variation. A guide could quote either one and construct an argument. That is exactly the problem.

5.2 Why Returns Differ: It Is Mostly Sector Composition

Most of the performance gap in either direction is explained by what these portfolios systematically own more and less of, not by any moral premium.

Screened portfolios typically end up **underweight** energy, materials, and utilities, and **overweight** technology, healthcare, and financials. That single fact drives most of the story:

- **2020:** technology soared, energy collapsed. Sustainable funds looked brilliant.
- **2022:** energy was the only sector with a positive year. Sustainable funds looked foolish.
- **2023–2024:** technology led again, and the gap narrowed or reversed.
- **2025–2026:** results have been close, with regional allocation mattering more than screening. Sustainable funds skew more global and more European than traditional US funds, so currency and regional performance have been doing much of the work.

This is a sector-tilt story, not a virtue story. If you buy a screened fund you are accepting a sector tilt, and you should expect it to help sometimes and hurt sometimes. If that variation would cause you to abandon the strategy at the bottom, size it smaller.

5.3 The One Factor That Reliably Predicts Returns: Cost

Here the evidence is not ambiguous at all. Expenses are subtracted from your return with total reliability, every year, regardless of how any sector performs.

And sustainable funds have historically cost more. Analysis published in mid-2026 by Sustainable Research and Analysis found actively managed labeled-sustainable funds averaging roughly **1.00 to 1.18 percent** in international and sector equity categories, and intermediate core-plus bond funds averaging **0.86 percent** for active strategies against **0.12 percent** for index alternatives — a gap of nearly three quarters of a percentage point in an asset class that might return four or five percent in total.

Set against that, the same analysis notes that on a risk-adjusted basis over ten- to twenty-year periods through the end of 2025, somewhere between 83 and 92 percent of funds in those categories underperformed their benchmarks — a general finding about active management that sustainable funds do not escape.

> **The single most useful sentence in this guide**
>
> A screened index fund charging 0.15 percent starts every year 0.85 percentage points ahead of an actively managed sustainable fund charging 1.00 percent. That advantage is guaranteed, compounds, and does not depend on anyone being right about anything. Before you pay up for active management, be specific about what you are buying with the difference — usually deeper screening or genuine engagement — and satisfy yourself that you are actually getting it.

5.4 Other Costs That Do Not Appear in the Expense Ratio

- **Concentration.** Narrow thematic funds carry real single-sector risk. A clean energy fund is an energy-sector bet, not a diversified holding, whatever its label.
- **Tracking difference.** Screened portfolios will diverge from broad benchmarks. Decide in advance how much divergence you can live with, because you will be asked to live with it in a year when it goes the wrong way.
- **Fund closure and merger risk.** Sustainable funds have closed and merged in unusual numbers since 2024. In a taxable account, a liquidation is a realization event you did not choose. Prefer funds with meaningful assets and a stable sponsor.
- **Tax efficiency.** Actively managed funds generally distribute more capital gains than index funds. In a taxable account this is a real drag, and it argues for holding higher-turnover strategies in tax-deferred accounts where you have the choice.

5.5 So What Should You Expect?

A reasonable expectation, and the one we work from:

A well-constructed, low-cost, diversified sustainable portfolio should perform roughly in line with a comparable traditional portfolio over a full market cycle, with year-to-year differences driven mainly by sector composition and with costs as the most reliable predictor of the gap. It may lead. It may lag. It will not do either consistently enough to be the reason you adopt it.

Invest this way because you want to, and then manage cost and diversification with the same discipline you would apply to any other portfolio. That is the honest position, and it happens also to be the one most likely to leave you with a portfolio you will actually keep.

CHAPTER 6

The Investment Vehicles

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

Six main structures are available to individual investors. Each involves a different trade among cost, control, depth of screening, liquidity, and minimum investment.

Vehicle	Strengths	Limitations	Best suited to
ESG / SRI mutual funds	Deeper screening; managers more likely to engage and vote; available in most retirement plans	Higher expense ratios; less tax-efficient; wide quality variation	Investors who want engagement and will pay for it
ESG / SRI ETFs	Low cost; tax-efficient; intraday liquidity; transparent holdings	Usually rules-based screening only; typically minimal engagement	Cost-conscious core holdings
Community investment notes	Direct, traceable impact; fixed interest; low market correlation	Not insured; illiquid; below-market returns by design	A small, deliberate impact allocation
Green and social bonds	Fixed income with a designated use of proceeds	"Green" label is self-designated; reporting quality varies	Fixed-income sleeves where the label is verified
Individual stocks	Complete control over every holding	Requires ongoing research; hard to diversify; concentration risk	Investors with the time and appetite for it
Separately managed accounts	Fully customizable screens; direct ownership enables tax-loss harvesting	High minimums, often $250k+; higher fees	Larger taxable portfolios with specific exclusions

6.1 Mutual Funds Versus ETFs: How to Actually Choose

This is the decision most investors face, and the framing that helps is not "which is better" but "what am I paying for."

An ETF is generally the better default. Lower cost, better tax treatment in taxable accounts, transparent daily holdings. Most screened ETFs track a rules-based index — they exclude what the index methodology excludes, and that is the whole strategy.

A mutual fund earns its higher fee only if it is doing something the ETF is not. In this field, that something is usually deeper or more judgment-based screening, and active stewardship: voting proxies thoughtfully, filing resolutions, engaging with management. Some sustainable mutual funds do this seriously and it is a real service. Others charge active fees for index-like screening and negligible engagement.

So the question is answerable: *what is this fund doing that a cheaper ETF is not?* If you can name it and verify it, the fee may be justified. If you cannot, it probably is not.

6.2 A Note on Separately Managed Accounts

SMAs are worth understanding even if you are below the minimum, because they solve a specific problem well. Because you own the underlying securities directly rather than fund shares, an SMA can apply exclusions precisely to your specifications and can harvest tax losses at the individual holding level — which in a large taxable account can be worth more than the fee difference.

Direct indexing has pushed minimums down considerably in recent years, and providers exist well below the historical $250,000 threshold. This is a place where the market has moved faster than most published guidance.

6.3 Alternatives and Private Impact Funds

Private equity, venture capital, and real assets funds focused on climate, housing, or community development can offer high impact and, occasionally, high returns.

They also involve long lock-ups, high fees, limited transparency, and, in most cases, accredited investor requirements. Manager selection matters enormously and dispersion between good and bad managers is far wider than in public markets. For most individual investors this is not the place to start, and it is not a substitute for a properly built public-market portfolio.

CHAPTER 7

Active, Passive, or Both

> *"The investor's chief problem — and even his worst enemy — is likely to be himself."*
> — Benjamin Graham

The active-versus-passive question takes a particular shape in sustainable investing, because the case for paying an active manager rests on something other than stock selection.

7.1 Passive Sustainable Investing

A passive sustainable fund tracks an index built with ESG rules applied — exclusions, scoring thresholds, or both. The manager makes no security-level judgments.

Advantages: low cost, tax efficiency, transparent and rules-based construction, broad diversification, and wide availability across asset classes.

Limitations: minimal shareholder engagement in most cases; screening only as strict as the index methodology; and — a point that surprises people — a best-in-class ESG index may still hold companies you specifically wanted to avoid.

Read the index methodology. It is a public document and it is the actual product you are buying. The fund name is marketing; the methodology is the contract.

7.2 Active Sustainable Investing

An active manager selects holdings using ESG analysis alongside financial analysis, and may run a genuine stewardship program.

Advantages: more rigorous and judgment-based screening; capacity for real engagement and resolution filing; flexibility to act on issues an index cannot encode; and the ability to weigh context — two companies with identical scores may deserve different treatment.

Limitations: higher fees, the ordinary risk of underperformance, and the need for you to evaluate whether the manager is actually delivering the thing you are paying for.

7.3 The Practical Answer for Most People

A blended structure resolves the tension without much complexity:

- **Core in low-cost passive.** Broad US and international equity exposure through screened index funds or ETFs. This is the majority of the portfolio and the majority of the diversification, at minimal cost.
- **Satellite in active where it earns its keep.** A smaller allocation to managers with documented deep engagement, or to a theme you specifically want and an index cannot deliver.
- **A small community allocation** for direct impact.

The discipline this imposes is useful: because the active sleeve is small, you have to be selective about it, which is exactly the right posture. And because the core is cheap, the blended cost stays reasonable.

CHAPTER 8

How to Spot Greenwashing

> *"The greatest enemy of knowledge is not ignorance, it is the illusion of knowledge."*
> — Attributed to Stephen Hawking

Greenwashing — marketing an investment as more sustainable than it is — is the central practical problem in this field. It is not usually outright fraud. It is more often a matter of a fund saying something technically defensible in language designed to be heard as something stronger.

This problem has become more, not less, your responsibility. The SEC's proposed ESG disclosure rule, which would have required standardized disclosure of what a fund actually screens for, was withdrawn in 2025. There is no forthcoming federal label to sort this out. The good news is that the checks below are not difficult and take about twenty minutes per fund.

8.1 Eight Red Flags

1. **The name promises more than the prospectus.** This is the most common and most easily caught problem. Open the prospectus, find the principal investment strategies section, and read what the fund is actually required to do. Language like "considers ESG factors among others" is not a screen — it commits the manager to nothing.
2. **No published exclusion list.** A fund making genuine exclusions can tell you exactly what it excludes and at what revenue threshold. Vagueness here is a signal.
3. **Revenue thresholds buried in the fine print.** A fund may exclude fossil fuel companies "deriving more than 25 percent of revenue from thermal coal." That leaves a great deal in. The threshold is the whole substance of the screen.
4. **Holdings that contradict the marketing.** Pull the actual holdings list and read it. Every fund publishes one. This check takes five minutes and catches more problems than any other single step.
5. **Proxy votes that side with management.** A fund can screen aggressively and still vote against every climate resolution on the ballot. Voting records are public — funds file Form N-PX annually and most publish a searchable record.
6. **Engagement described only in aspirations.** "We engage with portfolio companies on material sustainability issues" is a sentence, not a program. Look for named companies, specific asks, and stated outcomes.
7. **Backward-looking impact claims dressed as attribution.** A report claiming a fund "avoided 40,000 tons of carbon emissions" is usually comparing the portfolio's footprint to a benchmark's. That is a useful characteristic of the portfolio. It is not emissions that did not occur because of your investment.

8. **High fees with no corresponding depth.** If a fund charges active fees for what is functionally index screening and negligible engagement, the fee is buying you nothing. This is the most expensive version of the problem.

8.2 The Twenty-Minute Verification

Do this before you buy anything, and periodically for what you already own.

1. **Read the principal investment strategies section of the prospectus.** Not the fact sheet, not the website. Two or three paragraphs, and it is where the actual commitments live.
2. **Download the complete holdings list** and search it for whatever specifically concerns you. If you care about weapons, search for the primes. If you care about fossil fuels, search for the majors. Do not assume.
3. **Look up the proxy voting record.** Check how the fund voted on ESG-related shareholder proposals in the last year.
4. **Find the engagement or stewardship report.** If there is not one, the fund is probably not engaging.
5. **Compare the expense ratio to a screened index alternative** in the same category, and ask what the difference is buying.
6. **Check fund size and age.** Very small or very new funds carry closure risk, which is a real cost you do not see in any ratio.

> **Tools that make this faster**
>
> Several free or low-cost resources will do much of this work for you. Morningstar publishes sustainability ratings and carbon risk scores; As You Sow maintains free screening tools (Fossil Free Funds, Weapon Free Funds, Deforestation Free Funds and others) that will scan a fund or an entire portfolio against specific concerns; and Form N-PX filings on the SEC's EDGAR system contain every fund's complete voting record. AIO Financial uses YourStake for client portfolio analysis. Named here as illustrations of what exists, not as endorsements.

8.3 A Fair Word in the Other Direction

Not every gap between marketing and holdings is greenwashing. Index funds must track their index. Diversified funds must remain diversified. A fund cannot exclude every objectionable company and still deliver broad market exposure, and some compromise is structural rather than cynical.

The distinction that matters is **disclosure**. A fund that clearly explains its methodology, publishes its thresholds, and shows its votes is being straight with you even if its screens are looser than you would like.

A fund that markets in sweeping language and buries the substance is not. Judge the transparency, not just the strictness.

CHAPTER 9

Clarify What You Actually Care About

> *"The journey of a thousand miles begins with a single step."*
> — Lao Tzu

Everything in the previous chapters is secondary to this one. A portfolio can only reflect priorities that have been made specific, and most investors have never made theirs specific — they have a general sense of discomfort and no articulated list.

Work through the following. It takes about fifteen minutes, and the output is the input to every decision that follows. If you work with an advisor, bring the completed version to your next meeting; it will save an hour of conversation.

9.1 Values Worksheet

1. Which issues matter most to you? Mark all that apply, then circle your top three.

- ☐ Climate change and emissions
- ☐ Fossil fuel extraction
- ☐ Gender and racial equity
- ☐ Weapons and military contracting
- ☐ Fair labor practices and supply chains
- ☐ Corporate political spending and lobbying
- ☐ Animal welfare
- ☐ Executive compensation
- ☐ Affordable housing
- ☐ Water and biodiversity
- ☐ Tobacco, alcohol, gambling
- ☐ Data privacy and technology ethics
- ☐ Other: ________________________

2. Which industries would you refuse to own outright?

Be specific about the threshold. "No oil companies" and "nothing deriving more than 5 percent of revenue from thermal coal" produce very different portfolios.

- ☐ Oil, gas, and coal
- ☐ Tobacco
- ☐ Firearms and weapons

- ☐ Private prisons and detention
- ☐ Gambling
- ☐ Industrial agriculture and GMOs
- ☐ Large banks
- ☐ Fast fashion
- ☐ Other: ________________________

3. How do you weigh exclusion against engagement?

- ☐ I would rather not own it at all, even if that costs me a vote
- ☐ I would rather own a small position and push for change
- ☐ A mix depending on the industry
- ☐ I have not thought about it — explain the trade-off to me

4. How much return variation from the broad market can you tolerate?

Answer honestly. This is the question that predicts whether you will still hold the portfolio in three years.

- ☐ Very little — keep me close to the market
- ☐ Some — a couple of percentage points in a given year is acceptable
- ☐ A lot — I am willing to look quite different from the market
- ☐ I do not know how to think about this

5. Would you allocate part of the portfolio to community investments at below-market returns?

- ☐ Yes — direct impact is worth a lower return on a slice of it
- ☐ Maybe, if it fits the overall plan
- ☐ No — I want market-rate returns and liquidity throughout

6. How much of the portfolio should follow these principles?

- ☐ All of it
- ☐ Most of it, with exceptions where cost or diversification suffers
- ☐ A defined portion — approximately _____ percent
- ☐ I am exploring

7. What would make you consider this a success in five years?

Write one or two sentences in your own words. This is the most useful question on the page and the one most often skipped.

____

____

____

9.2 Reading Your Answers

A few patterns are worth naming.

If you marked one or two issues in question 1 and gave specific thresholds in question 2, you are an issue-focused investor and you are usually better served by a **targeted fund** — fossil-fuel-free, weapons-free — than by a broad ESG fund that may not exclude your specific concern at all.

If you chose "very little" in question 4 and "all of it" in question 6, those answers are in tension. A fully screened portfolio will diverge from the market; that is arithmetic. Worth resolving before you build anything.

If you selected engagement in question 3, your fund selection criteria change substantially — you should be reading proxy voting records, and cost alone is no longer the deciding factor.

CHAPTER 10

Building Your Portfolio

> *"The secret of getting ahead is getting started."*
> — Attributed to Mark Twain

With your priorities defined, construction is fairly mechanical. The order below matters, because each step constrains the next.

10.1 Start With Asset Allocation, Not With Screens

The mix of stocks, bonds, and cash will explain the overwhelming majority of your portfolio's risk and return. Screening decisions operate *inside* that allocation. An investor who gets the screens right and the allocation wrong has an aligned portfolio that fails at its actual job.

Set allocation first, against your time horizon, goals, and genuine tolerance for loss. Then apply screening within each asset class. Screened options now exist across US equity, international developed, emerging markets, and most fixed income categories, so this rarely forces a compromise on structure.

10.2 Audit What You Already Own

Before buying anything, find out what you hold. Most people have never looked, and the results are frequently surprising — a standard S&P 500 index fund holds every large US company, including every one you might have wanted to avoid.

Run your current holdings through a screening tool. Note which funds conflict with your top three issues, and note the cost of changing each — particularly in taxable accounts, where selling an appreciated position triggers a real tax bill. That cost is part of the decision.

10.3 Sequence Changes Sensibly

You do not have to do everything at once, and there are good reasons not to.

1. **Start in tax-advantaged accounts.** IRAs and 401(k)s let you reposition without triggering capital gains. This is the cheapest place to make changes and should generally be first.
2. **Use new contributions.** Direct new money to the funds you want rather than selling what you have. Over a few years this shifts the portfolio meaningfully at zero tax cost.
3. **Address taxable accounts selectively.** Sell positions with losses or small gains first. Consider harvesting losses in down markets to offset the gains from repositioning. Where a position has a very large embedded gain, holding it may simply be the right answer.
4. **Add the community allocation last.** It is the smallest piece and the least time-sensitive.

10.4 A Reasonable Structure

One common shape, offered as an illustration of structure rather than as a recommended allocation — your own allocation depends on facts we do not know:

Sleeve	Share	What goes here
Core equity	50–70%	Low-cost screened index funds or ETFs, US and international
Fixed income	20–40%	Screened bond funds; green or social bonds where the use of proceeds is verified
Active / thematic satellite	0–15%	Managers with documented deep engagement, or a specific theme you want
Community investments	1–5%	Community investment notes, CDFI deposits
Cash	As needed	Credit union or community development bank

The shape matters more than the numbers: a cheap diversified core, a small deliberate active sleeve, and a small direct-impact allocation.

10.5 Where Professional Help Earns Its Fee

Plenty of investors do this competently on their own. An advisor is most useful in a few specific situations: when a taxable portfolio has large embedded gains and the transition needs sequencing; when you want custom exclusions that require an SMA or direct indexing; when household accounts need to be coordinated across several custodians and account types; and — the most common reason, and the least discussed — when you want somebody to stop you from selling everything in a bad year.

If you do engage an advisor, ask whether they are a fiduciary at all times and how they are paid. A fee-only advisor is compensated solely by clients and receives no commissions from product sponsors, which removes a conflict that is otherwise difficult to see from the outside.

CHAPTER 11

Accounts You Do Not Fully Control

> *"Do what you can, with what you have, where you are."*
> — Attributed to Theodore Roosevelt

For many households the largest single investment account is an employer retirement plan, where the menu is chosen by somebody else. This chapter covers what is possible there and in a few other constrained accounts.

11.1 The 401(k) Problem, and Why It Got Harder

Sustainable options were becoming more common on plan menus through about 2022. That trend has reversed, and the reason is regulatory rather than commercial.

The Department of Labor has moved to rescind and replace the 2022 rule that permitted ERISA plan fiduciaries to consider ESG factors in selecting investments. In 2026 it issued guidance stating that proxy voting in ERISA plans must be grounded in risk-and-return considerations rather than nonfinancial factors, and the head of its enforcement arm publicly identified ESG in retirement plans as a priority. A further proposed rule on fiduciary duties in selecting plan investment options remains pending.

Plan sponsors respond to enforcement risk conservatively. Many have removed sustainable options or declined to add them, not because participants did not want them but because the fiduciary exposure was unattractive.

11.2 What You Can Actually Do

1. **Check for a self-directed brokerage window.** A meaningful share of plans offer one, often called a brokerage link. It lets you invest part of your balance in any fund available through the brokerage rather than only the core menu. Many participants do not know theirs exists. Read the summary plan description or ask HR directly.
2. **Look for an index fund with an acceptable screen.** Some plans carry a broad ESG index option even after trimming elsewhere.
3. **Ask.** Plan sponsors do respond to participant demand, and a written request from several employees carries weight. Frame it as a request for an additional option, not a replacement.
4. **Contribute to the match, then invest elsewhere.** If the menu is genuinely unworkable, capture the full employer match — always — and direct additional savings to an IRA where you have complete freedom.
5. **Align the accounts you do control.** If the 401(k) cannot be screened, screen the IRA and the taxable account more thoroughly. What matters is the household portfolio, not each account in isolation.

Never give up the match to make a point

An employer match is an immediate, guaranteed return that no investment strategy can replicate. Contribute at least enough to capture all of it, whatever the fund menu looks like, and express your priorities in the accounts where you have discretion.

11.3 Other Constrained Accounts

529 college savings plans. Menus are set by the state program. A handful of state plans include ESG or sustainable portfolio options. You are generally free to use any state's plan, though you may forfeit a state tax deduction by leaving your own — check the arithmetic before switching, because the deduction often outweighs the menu difference.

Health savings accounts. HSAs with an investment feature typically offer a small fund menu, but many providers allow a brokerage option once you exceed a cash threshold. HSA providers can be changed at any time, independent of your employer, which makes this one of the more flexible accounts most people ignore.

Old employer plans. A 401(k) left at a former employer can generally be rolled to an IRA, which converts a constrained account into an unconstrained one. Weigh this against the plan's institutional pricing and creditor protections, which are sometimes better than an IRA's — and note that a rollover has consequences beyond fund selection, so it is worth a conversation before you act.

CHAPTER 12

Monitoring and Adjusting

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

A sustainable portfolio needs the same maintenance as any other, plus one additional check: funds change, and a fund that met your criteria three years ago may not meet them now.

12.1 An Annual Review, in About an Hour

Once a year is sufficient for most investors. More frequent monitoring tends to produce more trading and worse outcomes.

Check	What you are looking for
Allocation drift	Has the stock/bond mix drifted materially from target? Rebalance if so, preferring tax-advantaged accounts and new contributions to make the adjustment.
Costs	Have expense ratios changed? Have cheaper equivalents appeared? This category has gotten cheaper almost every year.
Screening integrity	Has the fund changed its methodology, index, or name? Re-run the holdings against your top three issues.
Engagement	Did the manager publish a stewardship report? How did it vote on ESG proposals? Managers do quietly step back from engagement.
Fund viability	Are assets shrinking? Has a merger or liquidation been announced? Small and declining is a warning sign.
Your own priorities	Have they changed? They legitimately do, after a move, a birth, a career change, or simply new information.

12.2 When to Actually Change Something

Good reasons: the fund changed its strategy and no longer matches your criteria; a materially cheaper equivalent is available; your allocation has drifted outside its bands; your circumstances or priorities have genuinely changed; or the fund is at credible risk of closing.

Poor reasons: it underperformed for a year; a headline made you nervous; someone on the internet was confident about something. Portfolio turnover has a cost — taxes, spreads, and the risk of being out of the market at a bad moment — and most changes made in response to short-term discomfort reduce returns.

12.3 Staying Informed Without Being Alarmed

A modest information diet works better than a heavy one. Read your funds' annual and stewardship reports, follow one or two credible sources on the field, and check the regulatory landscape once a year — it is moving quickly enough that an annual look is warranted, and frequently enough that a daily one is a waste of your attention.

CHAPTER 13

Ten Myths, Honestly Addressed

> *"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."*
> — Attributed to Mark Twain

Some of these are myths held by skeptics. Some are held by enthusiasts. Both kinds cost people money.

Myth 1: Sustainable investing means sacrificing returns

Mostly false, but not for the reason usually given. The evidence does not support systematic underperformance. It also does not support systematic outperformance. Returns differ from the market mainly because sector composition differs, and that difference cuts both ways depending on the period. Where sustainable investing does reliably cost you money is through **higher fees**, which is a solvable problem — choose cheaper funds. See Chapter 5.

Myth 2: Sustainable investing reliably beats the market

False, and it is the more damaging myth. It was heavily marketed during 2019 to 2021, when a technology-heavy, energy-light tilt happened to be exactly right. Investors who bought that story were poorly prepared for 2022. Do not adopt this approach expecting outperformance; adopt it because you want to, and manage cost and diversification carefully.

Myth 3: It is only for the wealthy

False. Screened index ETFs are available at expense ratios competitive with conventional funds and can be bought for the price of a single share, or less at brokerages offering fractional shares. Community investment notes start near $1,000, Kiva participation at $25, and moving your checking account to a credit union costs nothing at all.

Myth 4: It is all greenwashing

Overstated, but the concern is legitimate. Some funds are genuinely rigorous; others attach a label to a lightly modified index. The difference is verifiable in about twenty minutes using public documents. Chapter 8 sets out how. Cynicism is a reasonable starting posture and a poor stopping point.

Myth 5: Individual investors cannot make a difference

Partly true, and worth being precise about. Your purchase of shares on the secondary market does not fund a company, and your sale does not defund it. But proxy voting aggregates, shareholder resolutions have produced documented changes in corporate disclosure and practice, and community investments move capital directly to borrowers. The honest framing: **screening is mostly about alignment; advocacy and community investing are where the impact is.**

Myth 6: ESG is just about the environment

False. Governance is the "G," and it covers board independence, executive compensation, political spending, and audit quality — factors with a long empirical association with shareholder outcomes. The "S" covers labor practices, supply chain conditions, product safety, and data privacy. Environmental issues are the most discussed, not the most numerous.

Myth 7: You have to divest from everything you object to

False, and this framing turns people away unnecessarily. Partial approaches are entirely legitimate. Excluding one industry you feel strongly about, while holding a conventional core, is a real position and not a compromise requiring apology.

Myth 8: ESG ratings are objective measures

False, and this is underappreciated. Rating agencies disagree with each other substantially — the same company routinely receives very different scores from different providers, because they weight different factors and measure them differently. Academic work has found correlations between major ESG raters far below what you would expect from, say, credit ratings. Treat scores as one input, not as a verdict.

Myth 9: The political backlash has killed sustainable investing

False, though it has changed it. Assets have held roughly flat at $6.6 trillion through several years of sustained pressure, US fund assets reached a record $398 billion in mid-2026, and a federal court struck down the model state anti-ESG statute in February 2026. What has changed is the language — firms have quietly dropped the acronym — and the disclosure environment, which has gotten worse for investors.

Myth 10: If a fund has "ESG" or "sustainable" in its name, it is screened

Not reliably. Fund names are marketing. The prospectus and the index methodology are the product. A fund may "consider ESG factors" without excluding anything at all, and a best-in-class fund may hold the exact companies you were trying to avoid. Read the strategy section and check the holdings. This is the single highest-value habit in this guide.

CHAPTER 14

Where to Go From Here

> *"A goal without a plan is just a wish."*
> — Antoine de Saint-Exupéry

If you take nothing else from this guide, take these five things.

1. **Get specific about what you care about.** A general unease cannot be built into a portfolio; a list of three issues with thresholds can. The worksheet in Chapter 9 is the whole exercise.
2. **Read the prospectus, not the name.** Twenty minutes of verification prevents most of the disappointment in this field.
3. **Control what is controllable.** You cannot control returns. You can control cost, diversification, tax treatment, and whether the fund does what it says. Those four account for most of the difference between a good outcome and a poor one.
4. **Use more than one lever.** Screening is where everyone starts. Engagement and community investing are where the causal chain to real-world outcomes is shortest, and both are accessible to ordinary investors.
5. **Start small, and start.** One fund change, or one account moved to a credit union, beats a perfect plan you never implement.

14.1 A Starting Sequence

If you want a concrete order of operations for the next month:

When	Do this	Why
Week 1	Complete the worksheet in Chapter 9	Everything else depends on it
Week 2	Run your current holdings through a free screening tool	You cannot fix what you have not measured
Week 3	Identify one change in a tax-advantaged account	Cheapest place to start, no tax consequence
Week 4	Redirect new contributions to aligned funds	Shifts the portfolio over time at zero cost
Ongoing	Review annually using Chapter 12	Funds change; so do you

14.2 Working With AIO Financial

AIO Financial is a fee-only registered investment adviser. We are compensated solely by our clients — no commissions, no product sponsor payments, no revenue sharing — and we serve as fiduciaries. We have specialized in sustainable and values-aligned investing since our founding, and we also do a substantial amount of cross-border financial planning for households with financial lives in both the United States and Mexico.

If you would like to talk about your own situation, an initial conversation is complimentary and carries no obligation.

Email: bill@aiofinancial.com

Web: aiofinancial.com · **En español:** aiofinanzas.com

14.3 We Would Like Your Feedback

This guide is revised periodically. If something was unclear, wrong, or missing — or if you want a topic covered in the next edition — please write to us at bill@aiofinancial.com. Reader corrections have improved every edition, and this one is no exception.

Thank you for reading, and may your portfolio reflect the world you want to live in.

Appendix A: Fund Due-Diligence Checklist

Print this and use it once per fund. Anything you cannot answer is itself an answer.

Basics

- ☐ Fund name and ticker: ____________________
- ☐ Expense ratio: _______ · Category average: _______
- ☐ Total assets: _______ · Inception date: _______
- ☐ Index-tracking or actively managed?
- ☐ Is a cheaper screened equivalent available in this category?

Screening

- ☐ Prospectus principal strategies section read (not the fact sheet)
- ☐ Exclusions are specifically named, not described in general terms
- ☐ Revenue thresholds for each exclusion identified: _______
- ☐ Complete holdings list downloaded and searched for my top three concerns
- ☐ Approach identified: exclusionary / best-in-class / thematic / integration only

Engagement

- ☐ Proxy voting record located (fund website or Form N-PX on EDGAR)
- ☐ Fund votes for ESG shareholder proposals rather than with management by default
- ☐ Fund files or co-files resolutions
- ☐ Dedicated stewardship staff identified
- ☐ Annual stewardship report published, with named companies and stated outcomes
- ☐ Member of investor coalitions

Risk and fit

- ☐ Sector concentration reviewed against a broad benchmark
- ☐ Tracking difference versus broad market understood and acceptable
- ☐ Historical capital gains distributions reviewed (taxable accounts)
- ☐ Fund size and trend do not suggest closure risk
- ☐ Holding location decided: taxable / tax-deferred / Roth

Decision

- ☐ I can state in one sentence what this fund does that a cheaper alternative does not
- ☐ I have verified that claim rather than accepted it

Appendix B: Glossary

Best-in-class screening. Selecting the highest ESG-rated companies within each sector rather than excluding sectors outright. Keeps market-like sector weights, and may hold industries an investor expected to be excluded.

CDFI. Community Development Financial Institution. A bank, credit union, loan fund, or venture fund certified by the US Treasury as primarily serving low-income and underserved communities.

Direct indexing. Owning the individual securities of an index rather than a fund holding them, enabling custom exclusions and security-level tax-loss harvesting. Minimums have fallen considerably in recent years.

Divestment. Selling holdings in a company or industry on ethical or risk grounds. Direct effect on a large company's cost of capital is generally small; historical effect has run more through political legitimacy.

Engagement / stewardship. Influencing corporate behavior as a shareholder — proxy voting, dialogue with management, filing resolutions. The lever with the clearest causal link to corporate change.

ESG. Environmental, Social, and Governance. A framework for assessing non-financial factors, often framed as risk management. Increasingly avoided as a term in US commercial use.

Exclusionary screening. Refusing to hold specified industries or companies. The oldest and most common approach; also called negative screening.

Expense ratio. Annual cost of a fund as a percentage of assets, deducted from returns. The most reliable predictor of relative performance available to an investor.

Form N-PX. The annual SEC filing in which a fund discloses how it voted every proxy. Publicly available on EDGAR and the most direct evidence of whether a fund engages.

Green bond. A bond whose proceeds are designated for environmental projects. The designation is largely self-applied; standards such as the ICMA Green Bond Principles are voluntary.

Greenwashing. Marketing an investment as more sustainable than its holdings or process support. Usually a gap between language and substance rather than outright misstatement.

Impact investing. Investing with a specific, measurable social or environmental outcome as an explicit objective, typically through private markets or community lending.

Materiality. Whether a factor is significant enough to affect financial performance. Increasingly the framing used in place of "ESG" in the current US regulatory environment.

Proxy voting. Exercising shareholder voting rights on matters put to a company's annual meeting. For fund investors, the manager votes on your behalf.

Separately managed account (SMA). A portfolio of individual securities managed to your specifications, permitting custom exclusions and security-level tax management.

Shareholder resolution. A proposal submitted by shareholders for a vote at an annual meeting. Frequently produces negotiated change without passing.

Thematic fund. A fund concentrated on a single theme such as clean energy or water. Higher potential alignment, higher concentration risk.

Tracking difference. How far a portfolio's return diverges from a broad benchmark. Screening necessarily creates some; how much you can tolerate is a planning question.

About the Author

Bill Holliday, CFP®, AIF®, CSRIC®

Bill Holliday is a CERTIFIED FINANCIAL PLANNER™ professional (CFP®), Accredited Investment Fiduciary® (AIF®), and Chartered SRI Counselor™ (CSRIC®). He is a member of the National Association of Personal Financial Advisors (NAPFA) and the founder of AIO Financial, a fee-only financial planning firm specializing in sustainable and values-aligned investing.

His interest in this field began in the US Peace Corps, where he served in Nicaragua from 2002 to 2004 and saw firsthand how access to small amounts of credit changed what was possible for small businesses in underserved communities. He spent the following year in Nogales, Sonora, helping launch a microfinance program for low-income families on the US–Mexico border. Community investing is, for him, the part of this field he encountered first and still finds the most concrete.

In 2012 he founded ProMex Group, a nonprofit providing financial education in Spanish, primarily in Mexico, where he continues to serve as volunteer director. AIO Financial also publishes Spanish-language financial education at aiofinanzas.com.

Bill divides his time between Tucson, Arizona and Hermosillo, Sonora, and serves clients across the United States. He enjoys traveling, time with his two daughters, and visiting extended family in Caborca, Mexico.

About AIO Financial

AIO Financial is a fee-only registered investment adviser serving clients throughout the United States, with offices in Tucson, Arizona.

Fee-only and fiduciary. We are compensated solely by our clients. We accept no commissions, no revenue sharing, and no compensation of any kind from product sponsors. We act as fiduciaries.

Sustainable and values-aligned investing. We build portfolios that reflect client priorities using screened funds, engagement-oriented managers, and community investments, and we analyze holdings using third-party tools rather than relying on fund marketing.

Cross-border planning. We work extensively with households whose financial lives span the United States and Mexico — foreign account reporting, cross-border retirement and estate questions, and the tax treatment of Mexican investment accounts. Spanish-language resources are at aiofinanzas.com.

Comprehensive planning. Retirement projections, tax-aware investing, education funding, insurance review, and estate coordination.

To arrange an initial conversation, write to bill@aiofinancial.com or visit aiofinancial.com.

Bill Holliday (right) with his brother-in-law Saul at a migrant support project in Caborca, Sonora, Mexico.