SUSTAINVEST
Asset Management, LLC

1st Quarter 2024

Your Investments. Your Planet. Your Choice.

Inside

Sustainvest Asset Management

Economy

Here's to some spring cleaning and sunnier days ahead. The bull market continues. Will the bears come out of hibernation, or will they sleep it through? If we only knew. For the first quarter of 2024, the markets continued their upward journey. With all ears on what the Fed is up to, Jerome Powell plays a game of peekaboo with interest rates. It seems like the idea of a soft landing is working as higher rates surely haven't done much to slow things down. The borrowers want a cut in rates, but the economy and job market are strong, leading Mr. Powell to see no reason to drop interest rates. There are some cracks starting to show. Market pinnacle of stability, Apple Inc. was down 7% in Q1 facing a Chinese slowdown and monopoly litigation. The worst performing stock in the S&P 500 was Tesla being down 30% and dropping it out of the top 10 largest companies. This is all during a time when the S&P was up 10%, the tech heavy NASDAQ up 9.1% and the DJI was up 5.6%. Even value stocks have shown up to the soiree, as funds such as PARWX and NULV were up 10.2% and 8.2% in Q1. Perhaps, this is a spillover for firms that have yet to receive the "AI bump" as opposed to those like Nvidia and Meta who continue to be in the spotlight. The full realization of what is being boldly hailed as the next industrial revolution remains to be seen. Apparently, the AI revolution will impact every single nook and cranny of every business and if they don't adopt it in some shape or form, they will be left behind. Anything that can read and comprehend 800-page Moby Dick in

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Companies Committed

Well, it looks like us humans all share one thing in common. And no, it's not the fact that we occasionally eat a bag of chips in one sitting. Nearly all people in the US have measurable amounts of polyfluoroalkyl substances (PFAS) in their blood. These PFAS come to us from the linings of food boxes to non-stick cookware to the water we drink. These tiny forever chemicals have been known to cause a large variety of health issues including cancer. PFAs were introduced in the 1940s. It wasn't until 2005 when the EPA concluded that these are a "likely" human carcinogen. Thanks Dupont (Teflon) and 3M (Scotchguard).

Similar to climate "adaptation" technologies being adopted, there are a few companies that are attempting to help clean up these forever chemicals. One of these companies is Texas-based **Aecom (ACM)**. A provider of consulting and project management services, Aecom has over 52,000 employees worldwide. It ranks first in specialized areas like transportation and facilities design and environment engineering/science. Their new development is a technology, titled De-Fluoro, that breaks down these forever chemicals by combining them with oxygen through an electrical charge.

Though sad that we have gotten to this stage, Lara Poloni, Aecom's president, stated "there's a 5x growth opportunity" with PFAS. The PFAS story is "huge" and "accelerating."

Note: Sustainvest does not have a position in the company.

Education

Vocabulary Workshop on Investing and Taxes

It's time to learn some vocabulary. I know, boring! But through the years, we have seen many investors whom, during tax season, get nervous and stumble over certain terminology. Here are some key terms to keep that tax time anxiety away.

òGreat things are done by a series of small things brought together."

-Vincent Van Gogh

Unrealized Gain or Loss- An unrealized gain or loss occurs when the value of an asset has increased or decreased, but it has not yet been sold. Think of that Apple stock you bought at $30 a share that is now worth $160 that you continue to hold onto.

Realized Gain- Exactly as it sounds, this is when an investment is sold for a higher price than it was purchased. Realized gains are often subject to capital gains tax. The current long-term capital gains tax rates are 0 percent, 15 percent and 20 percent, depending on your income. These rates are typically much lower than the ordinary income tax rate. If you sold $20,000 of that Apple stock (of which you paid $15,000 for it), then your realized gain would be $5,000. That $5,000 now could be taxed at 20% so you would owe Uncle Sam $1,000 on the gain.

Short Term Realized Gain-This is exactly like the above term, but it means you sold it before you owned the stock for one full year. We try to stay away from these as these are generally taxed at the same rate as your ordinary income, anywhere from 10% to 37%. So if you sell a stock and make $10,000 on it, you could owe $3,700 in taxes.

Form 1099- A 1099 form is a document used by the IRS to track various types of income that are not part of regular employment wages. These are associated with clients who have brokerage accounts, not IRAs. Our custodian, Charles Schwab, generally kicks these out to clients by late February of every year. If you have multiple brokerage accounts with Schwab, you'll receive a 1099 for each account. These should go to your accountant.

Form 1498-Another IRS form to keep in your records, the 5498 is associated with anyone who has an IRA account and has made a contribution, a rollover or taken an RMD. Though you aren't required to do anything with Form 5498, be sure to keep this form for your records. Your CPA may ask for this as well.

Cost Basis- You will hear this one quite often. Cost basis is the original price that an asset was acquired for. If you bought Google stock at $50 in 2008 at share, that is your cost basis.

Tax-Deferred-Exactly what it sounds like, an investment account that is tax-deferred means that you will postpone paying taxes until you begin making withdrawals. IRA accounts are tax-deferred. Individual brokerage accounts are not tax-deferred only because when you sell a stock in them, taxes will be owed on any gains. Also, interest and dividends paid are taxable inside an account like an individual brokerage account or trust account. In an IRA they are deferred. If it is a Roth IRA, then there will be no taxes due upon withdrawal

Tax-Free-Did you think that everything in the world is taxed? Well, you were wrong. There are some investments, such as municipal bonds and even Treasury Bonds, where the interest issued by a state, municipality, or other local entity is exempt from federal taxation. As an added benefit, most states will allow a state tax exemption if the owner of the bond resides in the state of issue. Interest from Treasuries is generally taxable at the federal level, but not at the state level. This can also be called tax-exempt income.

None of this is tax advice and one should consult a tax advisor on the topic.

Activism News

Out with the CEO

Exxon Mobil Chief Executive Darren Woods received $36.9 million in total compensation for 2023. Shareholders want him out. A recent qf_pcfmjbcp proposal is calling for shareholders to reject the appointment of Mr. Woods as CEO at the upcoming annual meeting on May 29, 2024. Though not related to the recent egregious compensation, this is more due to the fact that he and his fellow executives have recently sued a group of their own shareholders who were attempting to address how Exxon is handling its carbon emissions. The solicitation alleges that Exxon sued to "silence constructive discussion of its strategy." That lawsuit was filed in January 2024. It should be interesting to see what the vote tallies look like come end of May. Any CEO who sues its own shareholders should have known there would be some type of backlash and this is exactly what they are facing.

Seperate the CEO and Board President

Did you know that with many corporations the CEO also sits as the President of the Board. I know, crazy right! In fact today…

About 43% of S&P 500 companies operate with the same person acting as CEO and chair, compared to 56% in 2013

This is a step in the right direction, but shouldn't that number be 0%? Where could the checks and balances be if the CEO also has command of the boardroom? Certain shareholders are doing something about this. In April, proposals at Goldman Sachs and Bank of America were brought forward asking to separate the roles of chair and chief executive at these banks. They each received about 30% in favor of separation. This is double the support from the same proposal from a year ago.

JPMorgan Chase & Co. (JPM) holds its annual meeting on May 21. Shareholder proposal No. 5 in the bank's proxy statement also calls for the separation of the chair and CEO roles. We shall see how much shareholders care about Jamie Dimon acting as both CEO and Board President. Considering he has sold 1 million shares of his employers stock (JPM) valued at $180 million in 2024, perhaps shareholders will speak up.

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one second, we are intrigued. For the other components of the Magnificent 7 for Q1 we saw Microsoft up 14%, Alphabet up 9%, Amazon up 18%, Meta up 37% and Nvidia up 82%. With about 10 stocks responsible for nearly the entire return of the S&P 500 in 2023, let's not lose sight of small and mid-cap stocks and stock funds.

Many investors continue to benefit from money market funds with annual yields close to 5% paying monthly interest. On a $50,000 investment, we are talking about $200 per month for just sitting in cash. How long will this last? According to the smart people in the room, not much longer. About a year ago, it was simple to lock in 5.25% for a one-year term. As I continue to search Schwab's trading site for regional bank CD's, I am seeing mid to upper 4% lately. Of course, no one knows where rates will go. With that in mind, we find it always productive to ladder maturities to avoid interest rate risk.

As recent news that State Farm will drop over 70,000 homeowners' property insurance coverage in northern California, one can't help to think that we are moving from an era of climate mitigation to climate adaptation. Instead of trying to fix the problem, perhaps one way to look at it is that we will just have to adapt to the climate problem? A new wave of climate adaptation funds is starting to hit the market. Owning water infrastructure funds like Invesco Water Resources Fund (PHO) is one approach to invest in such adaptation.

We, as sustainable investors, continue to do our part to align ourselves with companies that are taking the issues more seriously than others. Shareholder activism continues as well. Exxon faced a shareholder proposal asking for them to measure their methane emissions. It received almost 40% in favor from shareholder votes. Bank of America (Merrill Lynch), Ford and Target faced resolutions to report on their diversity programs. Google and Amazon faced proposals on racial justice impacts and plans. Though the news and political banter may make it seem that ESG or sustainable investing is facing an uphill battle, this is just noise that we have heard before. Morningstar recently issued a report showing that millennial investors poured a robust $69 billion into sustainable funds in 2021, and more than $51 billion the year before. This is a significant improvement compared to the $5 billion invested in ESG-focused funds back in 2015.

What seemed like a fad about ten years ago, Bitcoin is back in the limelight. In January, the SEC approved 11 bitcoin ETFs. Called "spot" ETFs, fund companies have given us a way to track the price of Bitcoin while not having to own the coin itself. Two of the largest money managers have issued their own funds including the iShares Bitcoin Trust (IBIT) and the Fidelity Wise Origin Bitcoin Fund (FBTC).

Greeny of the Quarter

The list is in. The Barron's 100 most sustainable companies list, that is. In their 7th annual report, Barron's lists companies which were scored on a variety of environmental, social, and governance measures. Considering about 13% of Americans last year reported economic hardship solely due to weather and climate related issues, perhaps it's time to pay more attention to companies at least attempting to help solve the problem. Barron's worked with Calvert Research and Management to rank the companies. The top 100 firms, dwindled down from the largest 1,000 publicly traded U.S. companies—achieved the highest scores across 230 ESG metrics, from workplace diversity to greenhouse-gas emissions. The top 10 were:

1. Clorox (CLX)-consumer products
2. Kimberly Clark (KMB)-consumer products
3. CBRE Group (CBRE)-real estate
4. Hasbro (HAS)-entertainment
5. Agilent Technologies (A)-lab tech
6. Owens Corning (OC)-roofing
7. Jones Lang LaSalle (JLL)-real estate
8. Tetra Tech (TTEK)-engineering
9. Constellation Energy (CEG)-electricity
10. Procter and Gamble (PG)-consumer products

Clorox, the #1 seed for both this year and last year, ranks at the top due to its continued emphasis of sustained diversity in its board of directors, with 50 percent female and their Climate Action Plan outlining its approach to a 2050 net-zero commitment and maintained goal to source 100 percent of its electricity from renewable energy. They do this mainly through their purchases of renewable energy credits from the Roadrunner solar project in Texas, the largest solar plant in Texas. Climate change is effecting all of us. Have you felt higher prices lately? "Climateflation" is what they are calling it. Perhaps it's more then just what the Fed does with interest rates and cheap money being offered via PPP loans? With U.S. weather and climate disasters costing more than $617 billion between 2018 and 2022, a record amount, according to the U.S. Department of the Treasury, what big companies are doing will make a change. Food inflation alone could rise by as much as 3 percentage points per year over the next decade due to environmental changes, one study found. Investing in companies that are at least not ignoring the problem, and making top 100 lists, is a step in the right direction.

Interested in learning more about our services, contact us at info@sustainvest.com or 707-766-9480

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