SUSTAINVEST
ASSET MANAGEMENT, LLC

3rd Quarter 2023

YOUR INVESTMENTS. YOUR PLANET. YOUR CHOICE.

INSIDE

ECONOMY

As the fall season is upon us and the hustle and bustle of summer vacations wain, this is a good time to reflect on one's finances entering the end of the year. Just as the oceans' tides ebb and flow due to environmental factors, so too can the markets as we all wait on what exactly these higher interest rates will do to the economy. Numerous macro conditions prevail at the moment. Employees at auto manufacturers are asking for a raise (Ford and GM CEOs each made over $25 million and received a 35% raise, so rightfully so). The Fed plays a game of "guess which way we will move rates" while consumers still consume, though not homes, due to the highest borrowing rates in 25 years. As always, remaining steadfast, regardless of political nonsense, and sticking to the game plan is key. Fun fact of the quarter, the S&P 500 has actually risen during the last five government shutdowns, even though we diverted this latest one in the last hour.

For this 3rd quarter, the S&P 500 was down 3.6% for Q3, the Nasdaq down 4.2% and US Aggregate bonds (AGG) was down 3.6%. The sustainable index DSI was down 3.3%, beating the S&P 500 once again. Taking a more long-term view, DSI is still up 13.4% in 2023 regardless of this quarter. The non-sustainable index SPY is up 11.78%. Gold was down 3.8% as well, but still has a 50% gain over the past 5 years. While trying to capture these market returns, one may also be trying to gobble up bonds and regional bank CD's for those seeking seeking more

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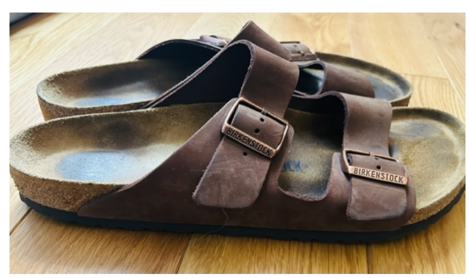
COMPANIES COMMITTED

Admit it. You have owned or currently own a pair. Birkenstocks that is. Well, the timeless slipper company has gone public. Under the stock symbol BIRK, the German company started trading shares as of October 11th. The stock dropped more than 12% in it's market debut on the New York Stock Exchange. Shares opened at $41 after the company priced its IPO at $46 per share. (currently about $37). They raised $495 million in the offering and plan to use the proceeds to pay off loans and expand.

Founded almost 250 years ago, BIRK uses high-quality, natural materials like cork and latex which is not only durable but also biodegradable. Birkenstock also prides itself on its environmentally friendly production methods.
Though they do use leather in their products, they do offer a more animal friendly vegan option when it comes to purchasing a pair. The company is committed to a transparent approach to production and working conditions.



When it comes to making money, they posted net income of about 187 million euros in 2022 and saw margins of about 60%. If they continue to grow their direct to consumer sales (taking away from the middle man) Birkenstock has room to grow those margins. Only time will tell how well the hippie laden stock performs.

Note: Sustainvest does not have a position in the company

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Education

Stock Dividends Versus Bond Interest

With all of the attention being given to Mr. Powell and the Federal Reserve as of late, this may be an opportune time to get a refresher on how fixed income vehicles make payouts to investors. It is perhaps a weekly, if not daily, discussion being had within the Sustainvest walls. As the Fed has increased rates at a historic clip, the value of both stocks and bonds are being affected. So let's jump in.

Stock Dividends

Dividends are regular payments of profit made to investors who own a company's stock. Dividends can be paid in cash or reinvested back into the stock. This is up to each clients' goals. If a retiree wants extra cash in their account, they can opt for "cash" being paid as opposed to buying extra stock. Also, for clients with large weightings in a stock, it may be prudent to stop buying more stock with those dividends and take the cash as well. Either way one chooses they are both taxable at a capital gains rate (consult a CPA on this). Dividends are paid quarterly.

Example: Microsoft pays an annual dividend of 0.92%. You own $50,000 of MSFT stock so you will get "paid" $115 per quarter.

Keep in mind, some stocks pay zero in dividends (Google, Meta, Amazon) and there are others that have paid them for over 100 years (Eli Lilly, Church and Dwight).

Bond Interest

A bond is a loan that the bond purchaser, or bondholder, makes to the bond issuer. Governments, corporations and municipalities issue bonds when they need capital. Like a loan, a bond pays interest periodically and repays the principal at a stated time, known as maturity. Bank CDs can fall under this title as well. Just like a stock, a bond can fluctuate in value but as long as an investor holds them to maturity, they will receive back what they paid for the bond. Bonds can pay interest monthly, quarterly, semi-annually or pay all of the interest once maturity is reached.

Example: Microsoft pays annual bond interest of 3.50%. You own $50,000 of this MSFT bond so you will get paid $437.50 per quarter.

You may see some bonds paying annual rates much higher then the norm. These are considered "junk" or high yield bonds. You may see some bonds paying much less. This is because the company or entity has very strong credit rating and some investors will take less knowing the company is in better fiscal shape.

Besides buying individual positions, one can own sustainably screened bond mutual funds (PRFIX or TSBRX) or exchange traded funds (SUSB or STIP). These funds generally pay monthly interest and can fluctuate in value.

"Investors representing literally tens of trillions of dollars support climate-related disclosures because they recognize that climate risks can pose significant financial risks to companies, and investors need reliable information about climate risks to make informed investment decisions."

SEC Chair Gary Gensler

Shareholder Activism

Activism News

This year, shareholders filed around 540 proposals as of March asking companies to address environmental, social and corporate governance issues, according to Proxy Preview. Resolutions focused on climate change accounted for about a quarter of this year's total, with the number increasing by about 12% from the same point in 2022.

Related to this is the Climate Disclosure Act. The Climate Risk Disclosure Act of 2021 was passed in the US House of Representatives in June of 2021. The Act will require all US public companies to disclose climate-related metrics.

The proposed rules also would require companies to disclose information about the 3 "scopes".

1. **Direct greenhouse gas (GHG) emissions (Scope 1) and**
2. **Indirect emissions from purchased electricity or other forms of energy (Scope 2).**
3. **GHG emissions from upstream and downstream activities in its value chain (Scope 3).**

As these companies whom committed themselves to the public markets have raised billions by going public, if shareholders are asking for them to disclose their environmental impact along with their plans to mitigate their own impacts it only makes sense that they offer up this information. ESG investors are demanding it and companies that have prepared for this incoming data dump will be better situated as opposed to those that have continued to kick the eco-can down the road. Understood, smaller public companies may need more time and resources, but once again, because they decided to go public, as opposed to remaining private, they have to understand this is what they signed up for.

The US Securities and Exchange Commission (SEC) is expected to release the long-awaited final version of its climate-related financial risk disclosure regulation by the end of October, 2023.

Economy continued from page 1

fixed returns. We are seeing yields of around 5.5% for one year duration as the Fed continues increasing rates. If Mr. Powell decides to increase rates again before the new year, is it possible we see 6% fixed returns on one-year bonds? Time will tell. For those who must take their RMDs (required minimum distributions) from IRAs and Inherited or Beneficiary IRAs, be sure to mark your calendars.

Climate related funds seem to be showing up like weeds lately. These funds include themes such as Low Carbon, Climate Transition, Green Bonds, Climate Solutions and Clean Energy/Tech. Renewables now account for 25% of US electrical generation. Forecasts show that wind and solar will account for 16% of 2023 total energy generation and 18% in 2024. Electricity generation from coal has fallen from 20% in 2022 and to 17% in 2023. The transition is happening slowly but surely. That being said, stock performance does not always coincide with growth. Lately, many politicians are voicing their monetary persuaded opinions attempting to reverse decades of hard work. Perseverance must prevail. As an advisor focused on sustainable investing it is our job to invest in funds which can capture potential future earnings, but a long-term perspective is needed. Three or six months is not very long term. As a fiduciary though, we also realize that we do not want to overweight these sometimes volatile themes, unless a client directs us to. One example of a fund that has struggled this year is the Invesco WilderHill Clean Energy (PBW) fund. Down about 17% YTD, it has trailed the markets due to holding smaller sized clean energy companies. Along with other climate transition funds, the quick increase in borrowing costs, a real estate slowdown and supply chain disruption has led to this.

Enphase Energy, a go to for solar power, is even down 50% so far in 2023 (though up over 2,000% from 5 years ago). Diversification is key. It is important to not only invest in climate mitigation holdings like alternative energy and EVs, but as we continue witnessing catastrophes, also invest in climate adaptation thematic funds like water scarcity, energy storage and carbon capture.

As the choices for more clean energy and climate transition funds become available, we will be looking for ways to possibly move portions of PBW, etc. into other options that may bring better performance and stability.

Keep in mind, sustainably minded stalwarts such as Apple (AAPL) and Tesla (TSLA) were both down about 10% for Q3 as well.

Greeny of the Quarter

Let's give it up for a bond newcomer. Green Bonds that is. As we discussed earlier, lately bonds and fixed income seem to be getting more attention then their little cousin, stocks. The bond market is actually larger than the stock market by size.

In 2021, the bond market size is estimated to be at $119 trillion, as compared to the $117 trillion equity market cap globally. That's a whole lotta bonds.

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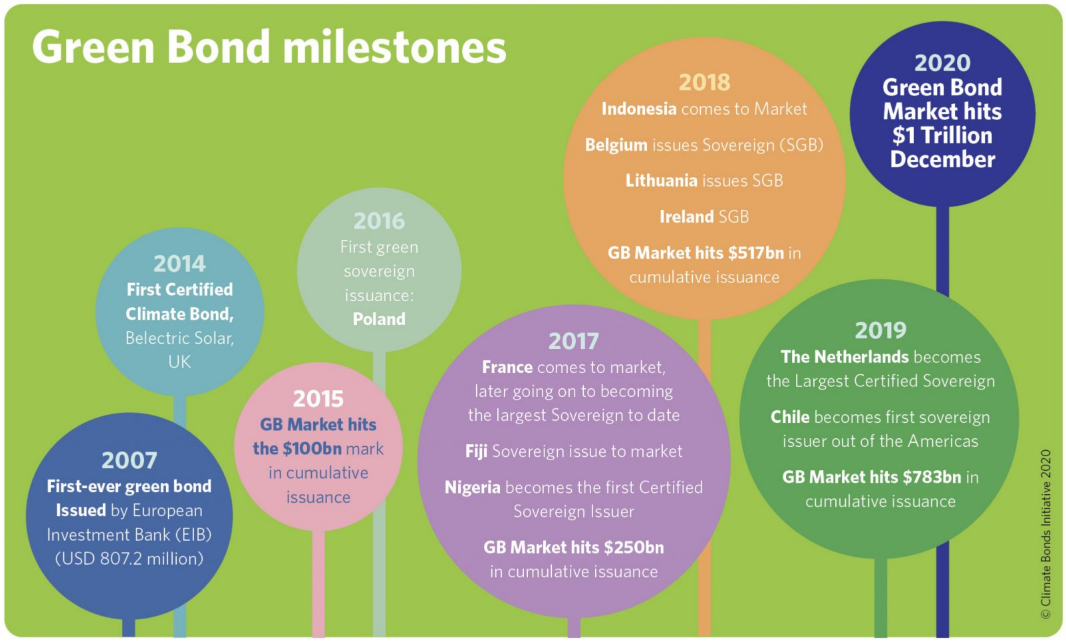

Climate Bonds Initiative, 2020

As this market continues growing, with retirees demanding more fixed income investments upon their golden years, so too will the demand for Green Bonds. Just a reminder, a green bond or sometimes referred to as a Climate Bond, is a fixed-income instrument designed to support specific climate-related or environmental projects. Think Starbucks funding compostable cups or solar panels going up on every Chipotle restaurant. In fact, the most recent news around green bonds comes from one of those greedy big banks. JP Morgan has even jumped on the bandwagon. They will be releasing millions in green bonds with proceeds being used to fund eligible projects such as green buildings to renewable and clean energy, as well as sustainable transportation/electric vehicles.

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If you are interested in learning more about our services, please contact us at info@ sustainvest.com or call us at 707-766-9480

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