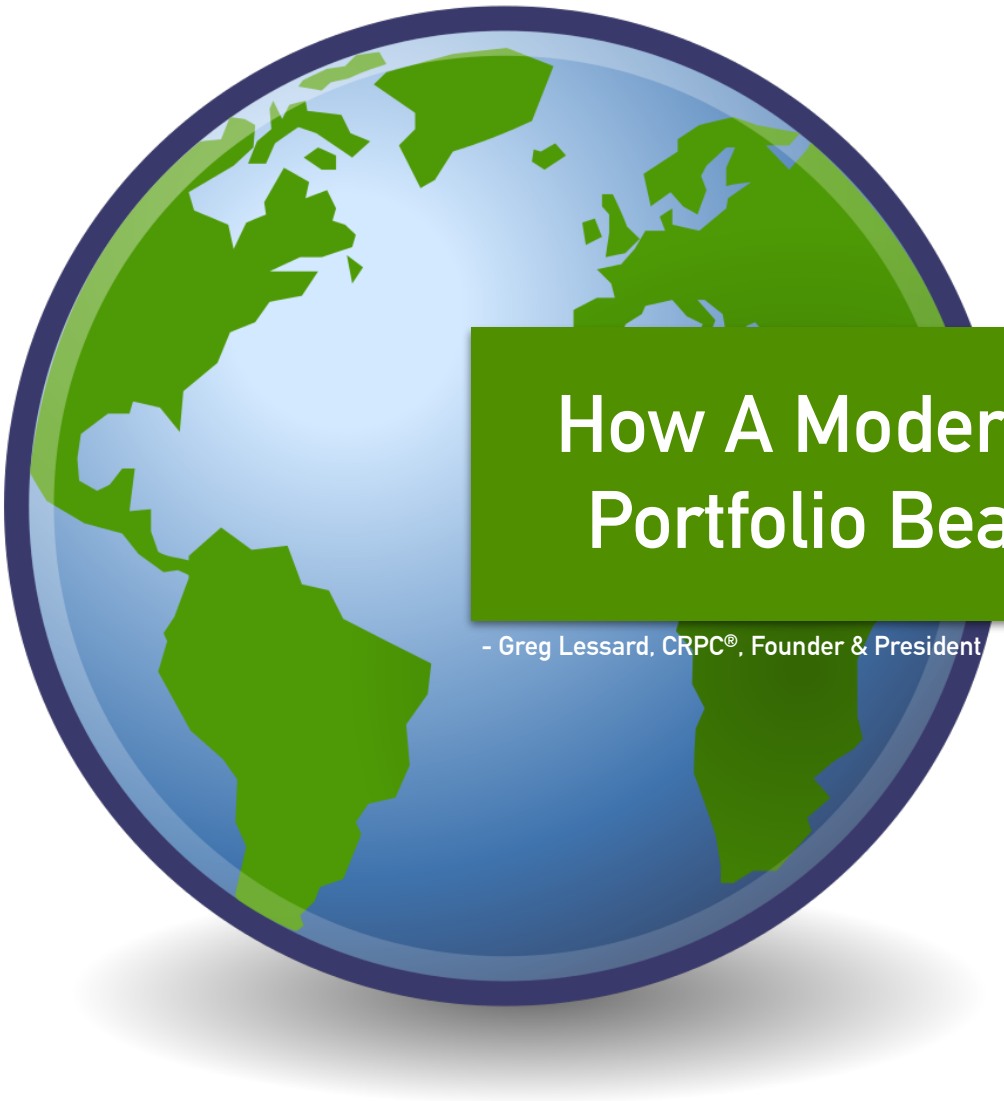
Investing With Environmental, Social, and Governance Values



How A Modern Day Hippy's Portfolio Beat Wall Street

- Greg Lessard, CRPC®, Founder & President Aspen Leaf Partners

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Our Planet Is A Very Special Place. We Believe Institutional And Retail Investment Dollars Can Help It Stay That Way

This working paper was created for investors who want to align their values with investments. The Socially Responsible Investing concepts and portfolio designs you're about to learn about build upon the environmental ideals I've held onto ever since I read "The Monkey Wrench Gang" as a teenager.

Although Edward Abby never had a 401(k), he'd appreciate the progress Aspen Leaf Partners has made to usher in the next generation of conscious investing.

"Sustainable investing is less complicated than you think, better performing than you believe, and more important than we can imagine."

- Chris McKnett (Check out his TED.com Talk)

Can Investments Reflect Personal Values & Beliefs, Absolutely!

MODERN DAY SOCIALLY RESPONSIBLE INVESTING

Historically, a socially responsible & impact (SRI) investing portfolio focused on excluding "bad" companies. Companies deriving revenue from sales of tobacco, weapons, or life ending pharmaceuticals were eliminated.

While these exclusionary considerations haven't vanished, asset managers building SRI portfolios also incorporate a positive screening methodology.

Investors concerned with Environmental, Social, and Governance (ESG) issues build portfolios based on sustainable companies they believe in.

LISTENING TO CLIENTS

According to a recent survey, 71% of investors are interested in sustainable investing[1]. Additionally, 65% of investors expect sustainable investing to become more prevalent over the next 5 years[2].

ADVISOR DISCONNECT FROM DEMAND

Only 7% of financial advisors are "highly interested", 30% "somewhat interested", and 63% "had little or no interest"[3].

If the majority of investors are inclined to invest according to their values, we believe forward thinking firms can benefit by providing appropriate solutions.

[1 & 2] Sustainable Signals: The Individual Investor Perspective. Morgan Stanley Institute for Sustainable Investing. Feb. 2015.
[3] Sustainable Investing: No Longer A Backwater. ThinkAdvisor.com. June, 2015.

Ethical investing has ancient origins and is rooted in Jewish, Christian, and Islamic traditions. Ethical restrictions on loans and investments are found in the Old Testament[1].

$6.57 TRILLION IN U.S. DOMICILED ESG ASSETS[2]

Institutional Adoption

- New York State Common Retirement Fund
- California Public Employees' Retirement System
- Connecticut Retirement Plans and Trust Fund
- University System of Maryland Foundation
- Harvard University Endowment Fund

Responsible investing is no longer associated with the overly spiritual, politically cantankerous, or tree hugging types. Savvy investors managing assets in the largest pension funds to the soccer mom with a rollover IRA are recognizing it's reckless to ignore corporate sustainability issues. Blindly investing outside ESG criteria is fraught with risk, and jeopardizes future long term returns.

[1] Socially Responsible Investments: Methodology, Risk Exposure, & Performance. Horst, Zhang, and Renneboog. ECGI Working Paper No. 175, June, 2007.
[2] Report on US Sustainable, Responsible, and Impact Investing Trends 2014. USSIF Foundation.

Consider The Impact Your Portfolio Decisions Have On The Planet

Environment

Carbon & Greenhouse Gas Emissions
Toxic Chemical Usage & Disposal
Renewable Energy
Ecosystem Change
Resource Depletion
Climate Change
Pollution
Environmental Reporting

Social

Diversity
Equal Opportunities
Customer Satisfaction
Indigenous Rights
Equitable Labor Standards
Product Safety & Liability
Human Rights
Employee Productivity
Community Relations

Governance

Board Leadership Independence
CEO Compensation
Separate Board And Committees
Corporate Accounting
Protection Of Minority Shareholders
Audit Legitimacy
Financial Reporting And Disclosure
Shareholder Rights
Controlled Company IPOs

There are three forms of capital that create sustainable value for corporations.

- Physical - basic resources, water, infrastructure
- Human - employees, community, government
- Financial - company assets, balance sheets

Environmental, Social, & Governance (ESG) Issues Are Directly Linked With Long Term Corporate Sustainability. ESG Portfolios Aren't Designed With The Same "Short Terminism" As Conventional Analysts & Managers Promote

Short Terminism Explained

Quarterly earnings focus at publicly traded, listed companies; missing expected earnings can result in large stock price drops, deferral of research and development to improve balance sheets; CEO & analyst compensation tied to short term performance metrics[1].

Sustainable Corporation

One that creates profit for its shareholders while protecting the environment and improving the lives of those with whom it interacts[2].

[1] Derived from the CFA Institute publication "Breaking the Short-Term Cycle", Krehmeyer, Orsagh, & Schacht, July, 2006.
[2] The Triple Bottom Line: How Today's Best-Run Companies Are Achieving Economic, Social, and Environmental Success—And How You Can Too. Savitz with Weber, 2006.

ESG Performance Is More Impressive Than You Think

MSCI KLD 400 Social Index Annualized Return	MSCI USA Investable Market Index
9.72%	9.69%

Performance metrics
5/31/1994 - 6/30/2015[1]

The MSCI KLD 400 Social Index was first launched in 1990 as the "Domini 400 Social Index". The index provides exposure to 400 U.S. companies with exceptional Environmental, Social, & Governance ratings, while excluding corporations who exhibit negative environmental and social impacts. The index was licensed in the form of an Exchange Traded Fund (ETF) by iShares in November 2006. The chart below compares the performance of the actual ETF (Ticker: DSI) compared to Morningstar's "best fit" benchmark, the Russell 1000.

Data Time Period: 11/14/2006 - 7/27/2015

iShares MSCI KLD Social 400 Social Index ETF

Russell 1000 Index

Chart Source: Morningstar

[1] Investors cannot buy an index directly. A product provider must license the index, then package it in the form of a mutual fund or ETF.