Executive Summary

- What is Sustainable Investing?
- What Does Sustainable Investing Mean To Your Practice?
- How To Position Yourself To Have “That” Conversation and Position Yourself As The Solution
- Case Studies

Sustainability

The ability to be maintained at a certain rate or level.¹

But what does it really mean?
- Socially Responsible Investing (SRI)
- Sustainable and Responsible Investing
- Environmental, Social, and Governance (ESG) Factors
- Impact Investing
- Advocacy Investing
- Integrated Finance
- Faith-Based Investing
- Values-Based Investing

Growing Market

Sustainable and Responsible Investing in the US
1997-2014, in billions

Source: US SIF Foundation

1 New Oxford American Dictionary
A Brief History of Sustainable Investing

- **1700s-1768**: Quakers cited slave trade as immoral.
- **1758**: Methodists “firmly opposed” the slave trade; employed negative screens for alcohol, tobacco, and gaming.
- **1928**: Quakers shunned slave trade and war profiteering.
- **1960s**: Pioneer Fund screened “sin” stocks (negative screening).
- **1971**: Pax World founded.
- **1984**: Anti-Apartheid movement and Bhopal, Chernobyl, Exxon Valdez catastrophes galvanize institutional investors and research firms to begin collecting data and reporting on environmental concerns.
- **1990s-2000s**: SRI, ESG, Sustainable investing go “mainstream.”
- **2006**: Saturna Capital founded.
- **2010s**: UN PRI - Principles for Responsible Investment.
- **2014**: $6.7 trillion in Sustainable and Responsible strategies.

Ocean Detritus

Origin by country of mismanaged plastic waste in 2010

- **North America**: 156
- **Europe**: 438
- **Asia**: 34
- **Africa**: 35
- **Middle East**: 1
- **Oceania**: 111

Why Sustainable is Important to You

- Increase interest with a broader audience
- Strategies appeal to UHNW
- Prepare for inter-generational wealth transfer
  - Value to younger clients
  - Your competition is doing it
Evolution of Sustainable Investing

Issues Managers Consider

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Impact Themes With Asset Classes

- Stable Assets
  - Fossil Income
  - Public Equity
  - Hedge Funds
  - Private Equity
  - Fixed Income
  - Growth Assets
  - Personal Values
  - Fiduciary Responsibility
  - Long-term Focus

- Fossil Fuel Divestment
- Green Bonds
- Capital Advocacy
- Fiduciary Responsibility
- Performance Drag?

Fiduciary Responsibilities

- 1994 - Unified Prudent Investor Act
  - “No form of so-called ‘social investing’ is consistent with the duty of loyalty...”
- 2006 - UN PRI - Six Principles For Responsible Investment
  - “Unprecedented environmental and social pressures … have become material issues for business.”
- 2009 - UNEP Finance Initiative
  - “It is an obligation on pension fund trustees … to state in their Statement of Investment Principles what the fund’s guidelines are on responsible investment...”
- 2015 - Current Evolution
  - “Embedding Sustainability in Valuation”
Performance Drag?

Minimal impact from sustainable strategies

- June 2011: ‘Corporate Environmental Management and Credit Risk’ - Rob Bauer, Daniel Hann, Maastricht University
- Environmental concerns are associated with a higher cost of debt financing and lower credit rating.
- ...while proactive environmental practices are associated with a lower cost of debt.

- Firms with better Corporate Social Responsibility scores exhibit:
  - Higher valuation and lower risk
  - Lower equity financing costs through alignment of corporate leadership with the interests of shareholders and stakeholders.

Studied To Death

Number of Sustainability Articles By Year

Source: Novais, João, Serralvo; African Journal of Business Management
Resources

- US SIF (www.ussif.org) The Forum for Sustainable and Responsible Investment
- UN PRI (www.unpri.org) Principles for Responsible Investment
- GSIA (www.gsi-alliance.org) Global Sustainable Investment Alliance
- SRI in the Rockies (www.sriconference.com) Conference on Sustainable, Responsible, Impact Investing
- Ceres (www.ceres.org) Mobilizing Business Leadership for a Sustainable World

Incorporating Financial & Non-Financial

Sustainable strategies should seek companies with:

- Long-term focus
- High quality operations
- Sustainable growth rates
- Strong balance sheets
- Risk consciousness
- Management stake
- Low debt
- Positive sustainability factors

What Does It Mean To Your Practice?

- Relationship Catalyst
  - Not just performance driven
  - Helps personal intangibles become tangible
  - Helps to define success, purpose with clients
  - Inter-generational wealth transfer (helping to keep assets in house)
- Know Your Client (Rule 405)
  - Helps you Know Your Client better
  - Be sure to define strategy parameters (success, exclusions, etc.) in management agreement

Position Your Practice As The Solution

Identifying client and prospect types
Position Your Practice As The Solution

Identifying client and prospect types

- Exclusion
- Proactive
- Single Security Exclusion
- Ethical / Advocacy
- Industry Exclusions
- Integrated / Best in Class

Position Your Practice As The Solution

Listening is KEY

- Key Words
  - Local market
  - Buy locally
  - Find better companies
  - More involved in community: philanthropy / volunteering / church
  - Want to make a difference
  - Leaving a legacy

Position Your Practice As The Solution

How to have “that” conversation

- Don’t ask:
  - Do you want ‘sustainable investments’?
- Instead, open a dialogue:
  - I noticed you have ...
  - Word recognition: local farms, good or better companies
  - More clients expressing an interest in sustainable investing or seeking “good companies that can also make a difference”

Position Your Practice As Sustainable

Crafting the value proposition: why clients should go to you for a sustainable solution

- Benefit:
  - Integrating personal values into investment plan gaining interest.
- Link Benefit to Value Delivery:
  - I invite you to keep me in mind when you’re ready to have that discussion.
- Differentiation:
  - I know how I can help you achieve your goals.
Case Studies

- Financial Planning
  - Defining success
  - Making a difference

- Legacy Planning
  - Broker / Charitable Organizations
  - Retain assets corporate trustee
  - Inter-generational wealth transfer
  - Donor Advised Funds

Presenter Bios

Patrick Drum, CFA, CFP
Portfolio Manager

Patrick T. Drum, Research Analyst and Portfolio Manager, joined Saturna Capital on October 2014. He is a portfolio manager for the firm’s institutional subsidiary, Saturna DBI (Singapore) Pte. Ltd., a wholly owned subsidiary of Saturna Capital. Prior to Saturna Capital, Mr. Drum was a portfolio manager with Mutual of New York Life Insurance Company for 11 years. Mr. Drum graduated from the United Kingdom of Great Britain and Northern Ireland in 1994 with a BSc Hons in Business Administration, and has an MBA from the University of Pittsburgh. He is a Chartered Financial Analyst Charterholder (CFA) and a Certified Financial Planner (CFP). Mr. Drum has nearly twenty years of investment experience in servicing institutions and their clients throughout his career. Prior to Mutual Life, Mr. Drum held positions in research and trading at firms such as Federal Reserve Bank, JPMorgan and Morgan Stanley.

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Vice President — Product Development

Craig Churman, Vice President, Product Development, joined Saturna in August 2011. He is a graduate of Western Washington University, with a BBA in Business Administration, and has an MBA from the University of Pittsburgh. Mr. Churman earned the Accredited Investment Fiduciary® Designation from the Center for Fiduciary Studies in 2013.

Prior to Saturna, he spent ten years in sales and product development at PIMCO Global Wealth Services, transitioning to Bank of New York Mellon where he acquired Fixed Income, CBO, and MBS experience.

With over thirty years of experience in financial services, Mr. Churman has held positions in client services, product development, and investment banking in New York, Boston, and Miami. He is a graduate of Washington State University with a B.A. in Business Administration, has an MBA from the University of Pittsburgh. Mr. Churman earned the Accredited Investment Fiduciary® Designation from the Center for Fiduciary Studies in 2013.