NATURAL INVESTMENTS LLC

WINTER 2022
Nº 108

BE THE CHANGE

Investing with Intent

SRI IN FOCUS:

Shareholder Advocacy Review

BY MICHAEL KRAMER

WE FINALLY GET TO take some victory laps! After years battling the previous administration, we are finally seeing executive branch actions that roll back its archaic rules and guidance that clearly benefited corporations and not investors.

SUCCESSES

The Securities and Exchange Commission (SEC), for example, recently issued new guidance addressing the criteria by which shareholders may submit proposals to the ballot for a shareholder vote. The guidance restores the original intent of the shareholder submission process in order to reduce the subjectivity of SEC staff interpretations, which typically blow in the political winds depending on which party controls the executive branch.

The November 2021 Staff Legal Bulletin 14L (Bulletin) affirms that environmental, social and governance (ESG) issues are relevant to mainstream investors, and that as such, shareholder proposals may address such matters when they state a clear, relevant, material, and specific request for company action. Whereas previous guidance allowed the SEC to exclude shareholder proposals from consideration if they were deemed to be insignificant by the company or an effort to micromanage it, the Bulletin affirms that proposals have merit if they are of significant shareholder interest, are economically relevant, and if existing company actions don't currently address their essential purpose. Given that more and more investors integrate ESG issues into their investment decision-making process, the Bulletin affirms the right of shareholders to request changes at companies. For example, advisory proposals on a significant policy issue like climate change, requesting a company to set targets or improve its performance at the scale, pace and rigor required by external public policy goals and time frames, are not considered micromanagement unless they attempt to direct the minutiae of operations.

Additionally, in April 2021, we were part of an appeal to the Environmental Protection Agency (EPA) and Congress to permanently protect the world's largest wild salmon fishery in Alaska's Bristol Bay from large-scale mining. Such protection had been removed by the previous administration, but the EPA reinstated protections last fall by using the Clean Water Act, which restricts mine waste disposal in wetlands, rivers, and streams within the Bristol Bay watershed. The 2,800 acres of wetlands, 130 miles of streams, and 130 acres of open water affected by this decision surely are happy about it.

HOLDING COMPANIES ACCOUNTABLE

We wrote to the SEC in support of a petition (#4-774) requesting that the SEC issue a rule requiring companies to publicly disclose their Black Lives Matter (BLM) pledges. Firms promised more than $65 billion to BLM in the past two years, with many of them receiving praise and investor interest as a result. However, as of last fall, only 7% of these pledges, or $500 million, has been committed. Companies may have experienced a competitive advantage without being required to fulfill their pledges, which investors deserve to know. This petition would set up a framework for reporting such corporate activity that would allow investors to obtain accurate information about these companies' charitable practices and investments in Black communities.

"We were part of an appeal to the Environmental Protection Agency (EPA) and Congress to permanently protect the world's largest wild salmon fishery in Alaska's Bristol Bay from large-scale mining."

We also wrote to the SEC with our colleagues to support Commissioner Allison Lee's suggestion to require companies to publicly disclose their Equal Employment Opportunity demographic data documenting employee gender, race and ethnicity statistics across job categories. While such information is already gathered and reported to federal agencies each year, it is not publicly disclosed, prohibiting investors from having consistent, comparable information to make investment decisions. While some companies voluntarily disclose this information, investors who want transparency and public accountability on workforce composition are seeking an SEC mandate so that investors can request that companies increase representation by women and people of color in corporate management. The research linking effective diversity, equity and inclusion (DEI) management and long-term shareholder value creation is now well-established, so we hope the SEC will assure that investors can easily gain access to such information.

MICHAEL KRAMER is a Managing Partner and the Director of Research for Natural Investments. He serves on the Policy Committee of US SIF—The Forum for Sustainable and Responsible Investment. Michael is co-author of The Resilient Investor: A Plan for Your Life, Not Just Your Money. He lives in Kailua Kona, Hawaii.

Indigenous Representation Matters

BY SYLVIA PANEK, AIF®

IN 2007, when I worked at The Forum for Sustainable and Responsible Investment (US SIF)—the national association for socially responsible investing (SRI) firms and professionals—I became the staff liaison for the Investors and Indigenous Peoples Working Group (IIPWG). One of IPWG's main campaigns at the time was asking companies and investors to pressure the owner of the Washington, D.C. professional football team to change its name to anything else that was not a racist slur.

Bank of America, which sponsored credit cards with the NFL team logos, declined multiple times to become involved. FedEx, the owner of the stadium used by the team, similarly claimed it had no grounds to make appeals for a name change.

IIPWG's campaign was one small fight in a long string of political, legal and cultural clashes between Native Americans and the DC team owner Dan Snyder. Most notably, Suzan Shown Harjo and the Morning Star Institute initiated and carried the work with court battles that spanned decades. US SIF members, including Natural Investments, submitted amicus briefs in support as well.

In 2014, the U.S. Patent and Trademark Office finally revoked the trademark registration for the Washington professional football team, stating the name is "disparaging." The team owner continued to refuse a name change, likely because odds were low for anyone else to step into their territory and use the R-word commercially.

Change finally came during 2020's George Floyd and Black Lives Matter protests, which ignited months-long waves of unrest across the country. Sentiment in corporate America finally shifted. The intense scrutiny over America's ongoing systemic racism led several sponsors, including FedEx, to finally write a public appeal calling for a name change. The owner acquiesced when retailers began to pull team merchandise from store shelves.

"T.V. Indians" © Cara Romero. 2017. All rights reserved. cararomerophotography.com

"How you see yourself portrayed in mainstream culture, especially true for children, shapes how you view yourself and your role in the world."

The football team is now in the middle of a two-year collaborative rebrand with fans. It's encouraging that Jeffrey Wright, the president of the Washington Football Team, confirmed "Warriors" is not an option for the new name that will be announced in early 2022. He noted it draws too many comparisons to the old name. If the team is meant to have a fresh start and inspire a united fandom, it cannot ignore the historical legacy and today's ongoing reckoning with racism that motivated the change in the first place.

He further acknowledged research on "noble savage" stereotypes having psychologically harmful effects on Native youth. How? Because, representation matters. How you see yourself portrayed in mainstream culture, especially true for children, shapes how you view yourself and your role in the world.

Words and imagery depicted in television shows, blockbuster movies, sports games, etc. are a reflection of what a society values. Native youth need to see themselves as more than figureheads from an era where their communities suffered mass genocide.

On that note, there is progress. A few prominent examples that can be celebrated:

- Deb Haaland, a member of the Pueblo of Laguna and former U.S. Representative for New Mexico, became the first Native American to serve as a cabinet secretary when President Biden appointed her as Secretary of the Interior. The position, which includes the Bureau of Indian Affairs, is now overseen by a Native woman for the first time.
- "Reservation Dogs" is a dark comedy set in present-day Oklahoma. Owned by FX Networks and available on Hulu, the show has an all-Native American led cast, but the most satisfying feature is that the show is produced, written, and directed by Indigenous Peoples as well.
- Joy Harjo of the Muscogee Nation in Oklahoma is an award-winning poet. In 2019, she became the first Native American named U.S. Poet Laureate.

Ultimately, passive egalitarianism isn't enough. We need to be actively anti-racist to break down the barriers to equality caused by unjust systems. As artist and activist Marian Anderson said, "No matter how big a nation is, it is no stronger than its weakest people, and as long as you keep a person down, some part of you has to be down there to hold him down, so it means you cannot soar as you might otherwise."

In addition to our IEDI statement, Natural Investments maintains a list of BLM Solidarity Action resources. We continue to help our clients support Indigenous Communities through investments that provide access to capital or economically support Native American enterprises such as NDN Collective, Oweesta Corporation, and Native Energy. Finally, we listen and try to serve as allies in the healing and rebuilding our nation needs, which means we welcome our readers to share their thoughts and ideas as well.

SYLVIA PANEK, AIF® is a financial advisor at Natural Investments, as well as manager of the Heart Rating. Her career has entirely focused on assisting individuals, concerned for people and planet, influence change through socially responsible investing. She resides in Chicago, IL.

Moves to Make Before Tax Time

BY KIRBIE CROWE, AIF®, CFP®

AS YOU CLEAN UP THE CORKS and streamers from New Year's celebrations, finances may not be top of mind. With the holiday season fuss, many people forget to check on year-end to-dos in December. Good news: there's still time to make some moves that can positively impact your 2021 tax situation and your overall financial health.

INDIVIDUAL RETIREMENT ACCOUNTS (IRAS)

IRAs can be opened and funded this year before April 15, 2022 (or October 15 for SEPS, SIMPLEs, and 401(k)s) to count for 2021. The deductibility of these contributions depends on the type of IRA as well as whether you are enrolled in a workplace retirement plan. Additionally, you may be ineligible to contribute based on your income—check with your tax preparer to ensure that you are eligible to make a contribution, and whether or not the contribution will be deductible. Keep in mind that employee contributions to most workplace retirement accounts, including 401(k)s, must be made by year's end to count for that calendar year. There are exceptions, so check with your human resources department if needed.

HEALTH SAVINGS ACCOUNTS (HSAS)

HSAs are tax-advantaged accounts that allow people in high-deductible health plans to save additionally for medical expenses. The IRS does not levy taxes on HSA contributions, distributions, or earnings. You can open and fund an HSA before April 15, 2022 to qualify for 2021, with a maximum contribution of $3,600 for an individual account and $7,300 for a family.

Unused HSA contributions roll over from year to year and accumulated savings can be invested in a HSBA brokerage account. By the age of 65, the accrued savings are not restricted to qualifying medical expenses and can be taken out for general living expenses as if it were a retirement account, but are taxable. Talk to your advisor to see if an HSBA is appropriate.

FLEXIBLE SPENDING ACCOUNTS (FSAS)

Employees participating in Health Care FSAs and Dependent Care FSAs may have more flexibility for rolling over or spending funds in 2022. Typically, unused FSA funds are not allowed to roll over into the next year; however, the IRS is allowing employers to offer a grace period for spending unused 2021 funds in 2022, or to allow participants to roll over their entire 2021 balance to this year. Check with your employer to confirm if they are offering either option.

The beginning of the year lends itself to some more general tasks that can also make an improvement in your budget and cash flow.

REVIEW SUBSCRIPTIONS

Look at a monthly bank statement or credit card bill to identify subscriptions you are being billed for but may have forgotten about. Evaluate whether the subscription still provides value and cancel if it doesn't. Apps like Truebill can assist in this process, but it's also easy to complete manually.

"The beginning of the year lends itself to some more general tasks that can also make an improvement in your budget and cash flow."

AUTOMATE SAVINGS

While many of us contribute money to workplace retirement plans through an automated paycheck deduction, we don't always build our personal savings accounts in the same way. Consider setting up an automated transfer from your checking account to your savings account once your direct deposit clears. You'll be amazed at how quickly savings can grow when the process is automatic!

BUDGETING

The beginning of the year is an excellent time to start or revisit a budget. By keeping spending in check, a budget can free up funds for retirement savings, a special goal and more. If you don't know where to get started, try an app like Mint that aggregates your financial information. It provides an informed picture of your spending and allows you to set limits for spending categories. Additionally, You Need a Budget, or YNAB, is a no-frills website that provides a straightforward budgeting program, and offers lots of free, helpful content to educate and motivate you.

Finally, if you're still having a difficult time getting your financial life together in the new year, don't forget to file a tax return extension by April 18, 2022. You can file an extension starting in March.

KIRBIE CROWE, AIF®, CFP® brings a strong social justice focus to her investing and planning work, with a particular interest in divestment from fossil fuels and private prisons. She lives in Greenville, SC.

IN THE NEWS

Winter 2022

1:

DESPITE SPILLS AND AIR POLLUTION, FOSSIL FUEL COMPANIES AWARD CEOS FOR ENVIRONMENTAL RECORDS

Executive bonus programs at fossil fuel companies, meant to encourage better environmental practices, evolved to allow firms to award executives full bonuses even in years with major environmental damage or total emission increases.

Washington Post

2:

NAVIGATING THE THICKET OF ESG METRICS

With socially responsible investment becoming mainstream, unpacking how environmental, social, and governance (ESG) metrics are analyzed at different firms becomes an important distinction for investors to understand.

Financial Times

3:

COMMUNITY INVESTING: TOOLS FOR THESE TIMES

An important pillar of responsible finance, community investing has evolved over the past several decades. The resurgence of anti-racist discussions in the public narrative has invigorated new efforts to support BIPOC low-income communities.

GreenMoney Journal

4:

EMPLOYEE OWNERSHIP ON THE RISE

Amidst the pandemic and Great Resignation, employee-owned businesses are increasing in the form of cooperatives and employee stock ownership plans (ESOP).

Shareable

5:

MICROSOFT AGREES TO RIGHT TO REPAIR

The movement to reduce electronic waste is picking up steam and corporate giant Microsoft is one of several tech firms bowing to federal pressure, consumer demands, and investor concerns to expand repair options.

As You Sow

ECONOMICS:
Market Report

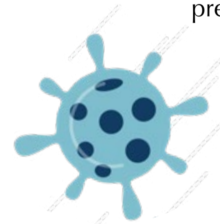
BY SCOTT SECREST, AAMS®

THE STOCK MARKET ended the final quarter of the year with some measures higher and some measures lower, though for the year markets were solidly higher. For 2021, large company stocks rose 28.7%, small company stocks rose 14.8%, and foreign stocks were up 11.3%. Domestic bonds for the year were down 1.5 percent.

The initial phase of the COVID-19 pandemic in early 2020 created a sudden freeze in global economic activity on a historic scale. In the following phase—roughly beginning June 2020 and continuing to the present—the economy has experienced an astonishing rebound surpassing all expectations. The rebound has been fueled by unprecedented government stimulus programs in various forms, as well as the deployment of effective vaccinations, which helped bring people out again.

Estimates for the rate of U.S. economic growth in 2021 are running around 5 percent—the highest rate in more than 30 years. Growing consumer demand, along with constrained supply due to production limitations, transportation bottlenecks, lots of cash in the economy from stimulus programs and other factors, are now stoking inflation. In November, the core inflation rate in the U.S. climbed 4.9 percent since the previous November. This was the highest rate in the U.S. for a 12-month period in decades.

Inflationary pressure is a warning sign of an overheating economy. Like other things that overheat (the author is remembering his '74 VW Beetle), this state generally ends in a breakdown of some kind. To cool the economy in December, Federal Reserve Chairman Jerome Powell—in an action now known as the "Powell Pivot"—reversed his forecast of transitory inflation to concede that it has become more stubborn and possibly lasting. As excessive inflation comes with economic risks, the Fed is expected to use its primary tool for cooling the economy: assertively raising interest rates in 2022. Rate hikes come with risks of their own, such as short-term economic oscillations and volatile investment markets. With skilled handling and a little luck, the Fed can cool the economy without letting it go cold altogether (also known as a recession).



Looking forward, the coronavirus variants remain a public health predicament. Some scientists now believe that the pandemic will potentially transition into an endemic (regionally persistent viral transmission) in coming years.

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Annual revaccination would likely be a feature of this scenario, though the economic effects would be limited.

As mentioned, among the elements helping to stoke inflation in the U.S. has been robust consumer demand for services, but mostly for products. Armed with stimulus payments, lockdown savings and rising wages, consumers have fed a retail sales rebound of double-digit proportions in many categories. Retail sales in the clothing and accessories category, for example, rose 42% in November since the previous year. The point at which consumption turns into overconsumption is not defined, though a look around the world might suggest the line has been crossed. Overconsumption may be defined as a situation in which the use of resources outpaces the sustainable capacity of the ecosystem.

Surging consumer consumption is an interesting question in the world today, and in the U.S. in particular. Years of income disparity has resulted in a dramatic wealth divide. 2019 reports show that the top 10 percent of households in the U.S. hold 70% of the country's wealth and the bottom 50% hold 2%. Connecting the dots between data of this sort and the problem of overconsumption leads quickly to the unsurprising supposition that the condition is driven by the country's more affluent households. After all, lecturing the poor on overconsumption would be illogical. In 2022, the "haves" around the globe may benefit from heeding novelist and poet Wendell Berry's sage advice on being a responsible consumer: "He would be a moderate consumer; he would know his needs and would not purchase what he did not need; he would sort among his needs and study to reduce them."

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is an Accredited Asset Management Specialist with more than 25 years of experience in the investment industry. Scott works in portfolio management with an emphasis on renewable energy investing, and retirement planning.

The Deal with Donor-Advised Funds

BY BRADY QUIRK-GARVAN

After wrapping up another season of end-of-year requests from non-profits, it seems to make sense to take a broader look at philanthropy and charitable giving.

Philanthropy in the U.S. is a massive undertaking. In 2020 Americans gave $471 billion to charitable causes. That is almost the same amount the federal government generally spends every month.

Why people choose to give, and what causes they support, is often a deeply personal matter. Some choose to support scholarships, while some support causes they think the government could or should cover; others to further a cause or ideal.

What unites all these gifts is the large impact they have on the federal budget and tax revenue. Those who are giving significant sums of money to a charitable organization, and itemizing their tax returns, receive a fairly significant tax deduction.

One specific area within charitable deductions that has drawn significant interest is donor-advised funds (DAFs). These are tax vehicles where a taxpayer can donate stock, cash or other items and take the tax deduction in one year, but give the funds away to charitable organizations over many years. In the meantime, the money can be invested tax-free.

The general idea is that sometimes there are major changes in your life that could be a one-time event but are also so large that you'd need time to give away the funds. For example, let's say you sold a family business for $5 million, and the costs basis was $1 million. Instead of paying capital gains taxes on that $4 million difference, you could put all the profits into a DAF and essentially eliminate your tax bill for that year. Then you could give away that $4 million over the coming years—perhaps $500,000 a year for the next eight years.

As often happens with tax law, it has drifted slightly from its original intentions. In the law there are no limits to when you must give away the money in a DAF. In the example above you could put the $4 million into a donor-advised fund, invest it and let it grow for decades without any of it actually going to a non-profit—and yet you have gotten the full tax write-off.

"Philanthropy in the U.S. is a massive undertaking. In 2020 Americans gave $471 billion to charitable causes."

This has gotten attention in recent years as some tech billionaires have used DAFs to reduce their tax liability to near zero but with very little actually flowing out to charitable causes. As a result, Senators Chuck Grassley (R-IA) and Angus King (I-ME) introduced the Accelerating Charitable Efforts Act (S. 1981) or ACE Act. It is rare for a Republican and Democrat (Angus only recently announced Independent status) to co-sponsor a piece of legislation these days, so many are beginning to take notice of this duo.

The new law would put a clock on DAFs and require those who use them to distribute money to charitable causes within 15 years. A new group called The Initiative to Accelerate Charitable Giving is a champion of this big change, along with some additional tweaks to the charitable law. It's worth spending some time digging into the proposed changes which are all very common sense, practical and seem to be aligned with voters of all parties. While the bill currently sits in the Senate Finance Committee, consider contacting your Senators with your opinions on the bill.

While this law is unlikely to move quickly through the current dysfunctional system in American politics, it's a very important step in the mission to amend tax law so it aligns with its true goals. A deduction for giving to charity is a noble and worthy thing for the U.S. to offer, but we should ensure that when someone gets a deduction, the money is going to a charitable organization in a timely manner.

BRADY QUIRK-GARVAN is in charge of business development and operations at Money With A Mission. He has been with the company since 2011 and enjoys working with clients, as well as shareholder resolutions. Brady lives with his wife, Angela, daughter, Mae, and their rescue dog, Scout, in Charleston.

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