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BE THE CHANGE

INVESTING WITH INTENT

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NATURAL INVESTMENTS PBLLC

GOVERNANCE:

Natural Investments Becomes the First Perpetual Purpose Trust in Financial Services

BY MICHAEL KRAMER

OWNERSHIP OVER THE YEARS:

1985-2007
Owners, Jack and Hal Brill

2007
Michael Kramer, Hal Brill, and Christopher Peck become owners

2009
NI team grows

2014
NI reaching the double digits

2022
Members of NI at annual retreat in Kauai

2016
Owners Greg Pitts, James Frazier, Christopher Peck, Malaika Maphalala, and Michael Kramer

2023
Members of NI at annual retreat in Northern California

NATURAL INVESTMENTS recently converted its company ownership from six financial advisors to the Natural Investments Purpose Trust. That's right, we're now essentially owned by a purpose!

Creating this trust over the past 18 months means that Natural Investments will continue to exist in perpetuity as an independent firm owned by an entity rather than individuals. Now advisors and staff are elected by our advisors to serve terms as trust stewards who have ownership-level authority to prioritize the firm's strategic direction. The change reinforces our commitment to sharing governance power among members of our increasingly diverse team.

It's an exciting moment in Natural Investments' history. Democratizing our ownership structure empowers new decision-makers, facilitates gender and racial equality in determining the priorities and direction of the company, assures a careful and gradual leadership succession, and yields wider economic benefits.

> "Now every trust steward's vote is equal and no one has more power than anyone else."

To assure business continuity, four of the six previous owners – Christopher Peck, Malaika Maphalala, James Frazier, and myself – have been appointed initial trust stewards, and we are joined by three advisors elected by our team: Carrie VanWinkle, Nicole Middleton Holloway, and Ryan Jones-Casey. These seven people form the Trust Stewardship Committee. In addition, Christopher and I shall remain as managers of the firm, so there are no discernable changes in our operations or impact to clients as a result of this ownership transition.

OUR OWNERSHIP HISTORY

Natural Investments traces its origins back 38 years to founder Jack Brill, who in 1985 became one of the first socially responsible investment advisors in the country. His son Hal joined him in 1989, and I became one of the firm's early clients in 1990.

In the 2000s, after several years with the firm as financial advisors, Christopher and I became co-owners with Hal in 2007, at which time we became Natural Investments, LLC. The firm has always been owned and operated by its advisors; there has never been a central office with executive employees running the firm, so owners manage firmwide responsibilities as well as serve clients. This has ensured major decisions were made collectively, in the best interests of clients, and in a manner that sufficiently supported advisors in being of service to them.

As we brought on additional advisors in the past 16 years, our long-term plan was always to pass on firm management and ownership to younger advisors. While the firm was initially owned equally by Hal, Christopher, and myself for 10 years, in 2017 Hal sold some of his stake to three other advisors: Malaika, James, and Greg Pitts. Our hope was to continue down this path, with each partner gradually selling ownership stakes to younger advisors over time to assure the firm would be led by additional people who shared the firm's core purpose, values, and management style.

Unexpectedly, since our humble beginnings managing $50 million decades ago, we became a "victim of our success." By growing our assets under management nearly fortyfold, the significantly higher valuation of the company led advisors to turn down the opportunity to purchase even small ownership stakes due to the high cost, raising a critical concern for how internal ownership succession could possibly occur.

Faced with similar circumstances, smaller companies traditionally sell to a larger firm, or advisors take on equity partners to facilitate ownership transitions. This syphons off profit and sometimes control. Even though companies are regularly offering to buy NI, we vowed to do what we could to retain our independence, self-governance, and capital – especially after seeing the challenges other firms experienced when involving outsiders.

Meanwhile, as the firm slowly added financial advisors to achieve gender parity and 25% people of color, we also aimed to diversify company ownership as part of our ongoing commitment to racial and gender equity, to share power more broadly, and to equitably share profit. The perpetual purpose trust is a great way to manifest these goals.

What is a Perpetual Purpose Trust?

This innovative ownership model transfers sole ownership of a business from individual owners to a trust that exists to serve the specific purpose of supporting the mission of a company. Those intimately involved with the company serve terms as elected trust stewards to guide the company, similar to a board of directors overseeing organizations. The trust stewards fulfill the same responsibilities as individual owners: assuring the firm's fiscal solvency, growth, and profit-sharing among stakeholders.

In our case, the trust's purpose is to preserve and enhance the viability of the firm to support advisors in carrying out Natural Investments' vision and mission.

The Natural Investments Purpose Trust's stated objectives are:

- Sustain our fiduciary duty to clients.
- Ensure advisor autonomy and encourage collaboration for the good of the whole of the firm.
- Aim for a budget that reasonably balances the firm's operational reserves, expenditures, and profit distribution.
- Provide infrastructure and ongoing regulatory, legal, and administrative services that bring value to advisors.
- Share economic rewards equitably among all advisors.
- Operate responsibly and equitably for the benefit of advisors, staff, clients, communities, society, and the environment.
- Promote an inclusive sharing of power in firmwide decision-making.

The significance of this last point around decision-making is that the shift to the Trust Stewardship Committee has instantly changed the longstanding power dynamics of the company. Until now, individual voting power was tied to the percentage of ownership stake, and since 2007, Christopher and I collectively had 67% of the voting authority.

Now every trust steward's vote is equal, and no one has more power than anyone else. Christopher and I now have 28% of the power. We have essentially given up majority control of the company as part of the sale to the trust.

With Christopher, Malaika, James, and me transitioning to the Trust Stewardship Committee, our co-founder Hal Brill and partner Greg Pitts are choosing to step out of their leadership roles. We acknowledge their dedication and strong guidance over the years with tremendous gratitude. The firm wouldn't be where it is today without Hal's 30-plus years of wise oversight and heartful inspiration.

Joining the four former partners on the Trust Stewardship Committee are three elected trust stewards from our advisor and staff stakeholder team: Carrie, Nicole, and Ryan. What's particularly exciting about electing new people is that they can assume the responsibilities of leadership without having to assume the extensive debt that the previous form of ownership would have required of them to earn voting power.

These advisors are well-suited for the role, as they have already demonstrated leadership within the organization by serving on committees addressing investments, racial equity, practice management, retreat planning, B Corp recertification, and the governance committee that helped shape the trust. We extend a very warm welcome to Carrie, Nicole, and Ryan in their new roles and look forward to their ongoing leadership contributions.

One manager of the company will have a permanent seat on the Trust Stewardship Committee; everyone else will serve staggered terms of three years. Everyone is re-electable and we are not implementing term limits, but we anticipate many advisors and staff serving elected terms as trust stewards over time to make ownership-level decisions that guide the firm into the future.

There is also a trust enforcer, who monitors the Trust Stewardship Committee to assure that it operates in support of the purpose, and if not, to hold the committee accountable. Retiring financial advisor Susan Taylor is fulfilling this role for us at the outset.

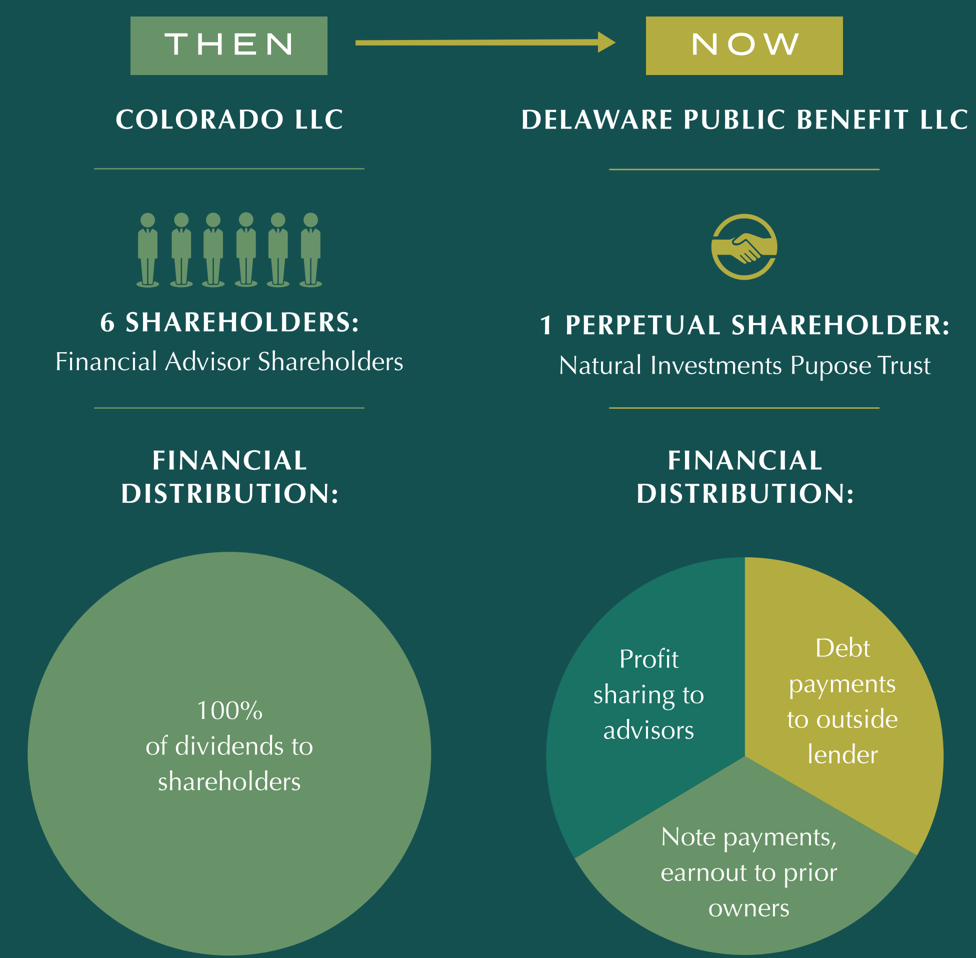
HOW DID WE CONVERT OWNERSHIP?

In 2020, some of our accredited clients invested in Organically Grown Company (OGC), a wholesale distributor of organic produce in the Northwest, to support its ownership transition to a perpetual purpose trust. The pioneering of this approach generated so much interest — Patagonia recently adopted it — that OGC created a consulting firm, Alternative Ownership Advisors (AOA), to help other businesses convert to a perpetual purpose trust or other alternative ownership models.

In 2021, we hired AOA's consultants Peter Koehler, Natalie Richman-White, and Elle Griffin to look at various ownership structures that could potentially fulfill our goals. Once we selected the perpetual purpose trust as our preferred model in 2022, we hired AOA again to help with its implementation. AOA spent the past six months designing the Trust with attorney Jenny Kassan to draft our documents, create a financial model to finance the sale, then structure and execute the sale.

As part of this transition, we also converted our Colorado-based LLC to a Public Benefit LLC registered in Delaware. Delaware is one of many states to have crafted benefit corporation legislation that codifies the tracking and reporting of multi-stakeholder benefits for businesses. Being a benefit corporation under state law complements our 2007 certification by B Lab as a Founding Certified B Corp.

Natural Investments Ownership Transition



HOW DID WE FINANCE THE SALE?

The sale of the company to the trust involves a combination of external and owner financing. Exiting owners are being paid a significant majority of their share value over many years.

To provide a down payment to selling partners, the firm borrowed one-fourth of the sale price from a longstanding community development financial institution that shares the firm's values. This seven-year note marks the first time in the firm's 38 years that it has borrowed capital.

While this ownership change marks the end of an era comprised of pioneering spirit and tremendous growth of people, capacity, assets, and impact, we are confident that this transition in our structure best secures our ownership, reflects our collaborative, evolutionary, and gender and racial equity values, and supports our advisors' work as fiduciaries of client assets for decades to come.

MICHAEL KRAMER is Trust Steward, Manager and Director of Research for Natural Investments. He has been with the firm as a financial adviser since 2000. Michael serves on the Public Policy Committee of US SIF: The Forum for Sustainable and Responsible Investment. He is co-author of "The Resilient Investor: A Plan for Your Life, Not Just Your Money."

INNOVATIONS:

Veganize Your Investments

BY SYLVIA PANEK, AIF®

OVER THE PAST FEW YEARS, celebrities have been going bananas for plant-based businesses, and the funds that support them are growing. Stella McCartney just launched a $200 million investment fund for vegan and sustainable brands. Musician Moby, actor Joaquin Phoenix, and filmmaker James Cameron have also publicly endorsed vegan and ethical investing to support companies that align with their values.

It's great that Hollywood and influencers are using their popularity to promote vegan funds, but how can you align your values with your own investments?

Few of us can invest like celebrities who are able to risk millions in venture capital funds with the newest startups offering animal-friendly solutions. Vegan mutual funds and exchange-traded funds (ETFs), which are accessible to everyday investors, make up a relatively small niche within the larger investment industry, but some options do exist.

As part of the Heart Rating team at Natural Investments, I've had the chance to review the strategies for two vegan ETFs:

- U.S. Vegan Climate ETF (VEGN)
- VegTech™ Plant-based Innovation & Climate ETF (EATV)

Typical screening criteria often consider whether companies are involved in activities such as animal testing, factory farming, and the use of animal products in fashion and cosmetics. I was pleased to find that both had the same goals: well-being for animals and the planetary ecosystem, with two different strategic approaches.

U.S. VEGAN CLIMATE ETF (VEGN)

The first vegan ETF in the U.S., founded in 2019 by Beyond Investing and Beyond Advisors IC, uses an avoidance method in its portfolio. Led by Beyond Investing CEO Claire Smith, the fund managers begin with the Solactive U.S. Large Cap Index, which consists of approximately 500 companies.

Next, the fund managers remove companies involved with animal-derived products, factory farming, or the use of animals in sports, entertainment, or lab-testing. The managers also exclude fossil fuel companies or utilities that burn fossil fuels for energy production, plus any company with a significant carbon footprint or history of environmental destruction.

Occasionally, the Heart Rating team finds that a fund's shareholder responsibilities don't match the investment thesis, meaning there is inconsistency between the screening process and the proxy voting record on environmental, social, and corporate governance (ESG) shareholder resolutions. A review of VEGN's proxy voting record shows close alignment between the fund's values and proxy votes at corporate annual meetings. Furthermore, the VEGN portfolio advisor recently launched a campaign asking hospitals to offer plant-based options in patient meals, vending machines, and cafeterias.

According to Investopedia, the fund invests in environmentally friendly and cruelty-free companies such as Microsoft, Apple, and Meta (formerly Facebook). Essentially, the ETF provides a broad exposure to a variety of corporations and several sectors while avoiding those with the worst impact from a vegan-based perspective.

VEGTECH™ PLANT-BASED INNOVATION & CLIMATE ETF (EATV)

This exchange-traded fund takes a completely different approach to building its portfolio. As a thematic fund, EATV utilizes an affirmative approach to find innovative firms that can help the world aggressively move the needle on providing plant based diets in a sustainable manner for the world. With affirmative investing, as opposed to excluding firms, the managers start with an empty slate and begin to add companies that meet their fund's criteria. The goal is to replace the inefficiencies and environmental damage of livestock husbandry in the food supply chain and traditional animal-based products.

This includes investing in biotechnologies such as precision fermentation, the practice of manipulating micro-organisms to produce complex organic molecules such as proteins. The Good Food Institute notes that "in 2022, researchers around the world focused on lower energy-intensive processes for fermentation facilities to reduce costs, create jobs, and lower environmental impacts. Fermentation can help valorize food waste streams like surplus bread or surplus dates. This approach not only generates food but also reduces landfill disposal and emissions."

Technological advances are not the only focus. Although alcohol production is not generally a value supported by the fund, Belgian-based beer brewer AB InBev is included for its upcycling of spent grain – the industrial moniker used to describe the malt after a brewery has already used it to make beer – into plant-based milk. By minimizing the reliance on dairy milks, the effort lessens pressure on deforestation, food security, and greenhouse gas emissions.

EATV's staunch commitment to veganizing corporations also includes shareholder engagement and dialogue with food manufacturers. Tattoo Chef excludes meat from its frozen meals, but up to 50% of the meals include cheese. Any significant manufacturer or user of dairy products is incompatible with the fund's goals, so after discussions with the company yielded no change, EATV decided to exclude Tattoo Chef from its list of investable firms.

EATV was also the first recipient of the Ethos Impact Carbon Neutral Certification. Ethos is a research platform for ESG issues that performed a lifecycle assessment of the carbon footprint (scope 1, 2, and 3 emissions) and carbon credit offsets from every holding in the fund, to verify whether it remained carbon neutral or net negative during a specified period of time. Based on this analysis, Ethos determined that the aggregate carbon avoidance potential of all EATV holdings was greater than the estimated carbon footprint, i.e., an investment in EATV results in a net reduction of carbon when considering the expected emissions avoided.

In the publicly traded space, oftentimes the difficulty for a values-aligned investor can be diversification and relying on fund managers to pick stocks for them. Lack of diversification is often a scare tactic traditional financial advisors use to dissuade clients from socially responsible investing (SRI), insisting that screening out a handful of firms will not offer competitive returns.

VEGN and EATV demonstrate that investment diversity is possible. With research, a skilled financial advisor can assist in developing a risk-appropriate and diversified portfolio for a vegan investor. Consider contacting yours today for more information.

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.

States Pass Laws on ESG Investing

BY MELANIE FELICIANO

AT THE TIME OF PUBLCATION, seven states have passed legislation to allow the integration of environmental, social, and governance (ESG) factors in state investment decision-making, while 22 states have passed or introduced legislation to prohibit ESG.

How did this anti-ESG movement gain so much momentum? Even though verified data shows that ESG factors increase returns, the mostly Republican sponsors behind a myriad of new bills say ESG factors are nonpecuniary and feed into what they call "woke capitalism."

In response, Council of State Governments' David Adkins told Pensions & Investments that "it is clear, like critical race theory, that ESG is now the flavor of the month for being a punching bag in the culture wars, and we don't have to accept that framing of the issue. ESG is not the enemy."

President Joe Biden agreed with that sentiment and vetoed an anti-ESG bill at the federal level in March. Additionally, seven states have introduced or passed legislation supporting ESG investing: Delaware, Colorado, Maryland, Illinois, New Mexico, Tennessee, and Washington. Maine passed bills both for and against ESG investing.

Regardless, several state treasurers had already acted in 2022 by divesting billions of funds from BlackRock, the world's largest asset manager, due to its stance on ESG issues.

ARKANSAS:

On March 17, 2022, the state treasurer announced Arkansas would divest $125 million out of money market accounts managed by BlackRock. The state treasury invests approximately $6 billion in state funds.

FLORIDA:

On Dec. 1, 2022, the state treasurer announced that Florida will divest $2 billion from BlackRock.

LOUISIANA:

On Oct. 5, 2022, the state treasurer announced the state would divest all treasury funds from BlackRock; $560 million had been removed to date and a total of $794 million was to be removed by the end of 2022.

MISSOURI:

On October 18, 2022, the state treasurer announced that the Missouri State Employees' Retirement System (MOSERS) has sold all public equities managed by BlackRock, pulling approximately $500 million in pension funds.

UTAH:

In September 2022, the state treasurer transferred approximately $100 million in state money previously managed by BlackRock to different asset managers.

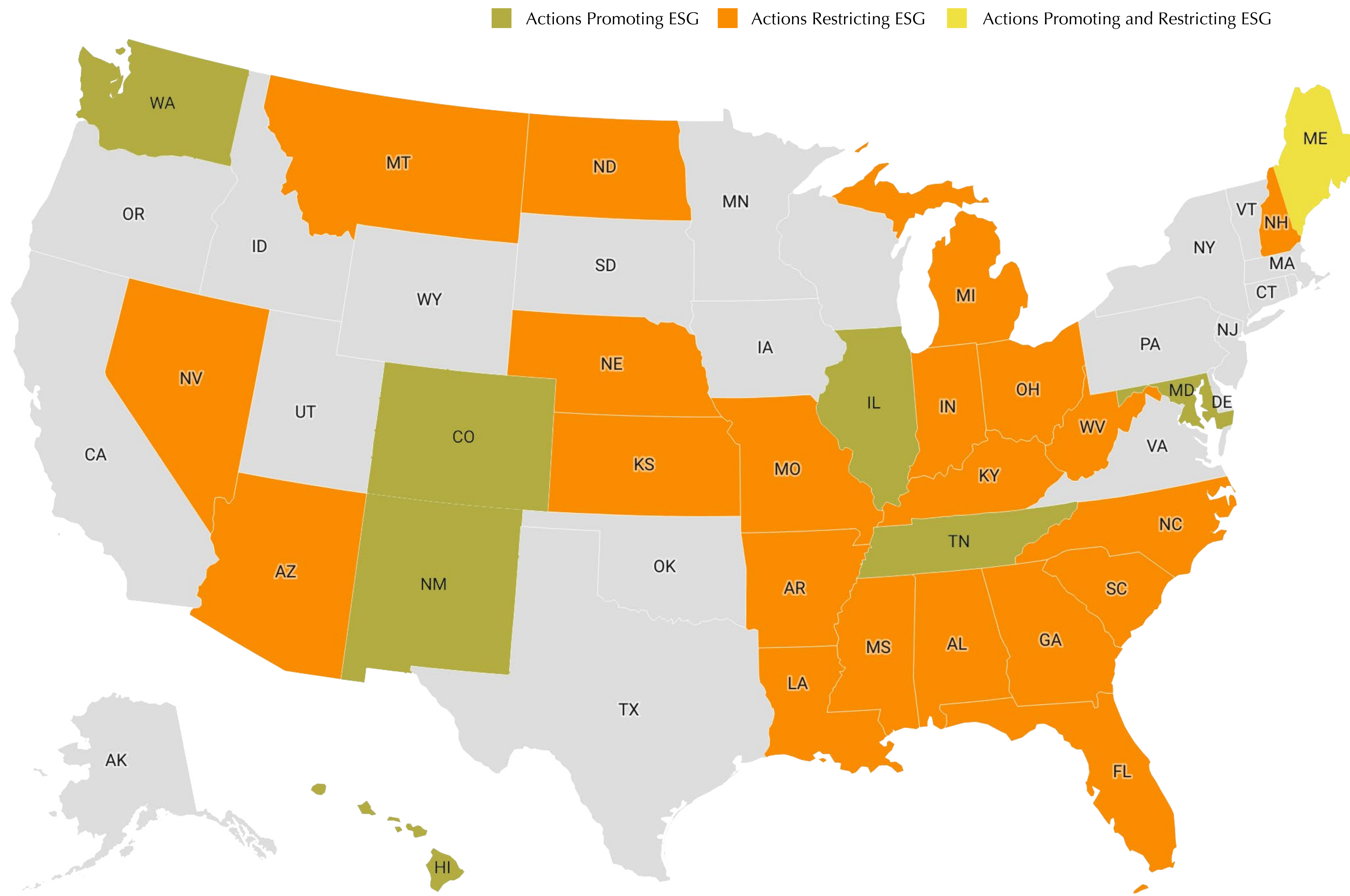
WEST VIRGINIA:

On July 28, 2022, the state treasurer announced the publication of the state's first restricted financial institution list, which listed BlackRock, Goldman Sachs, JPMorgan Chase, Morgan Stanley and Wells Fargo as engaged in boycotts of fossil fuel companies, and therefore, no longer eligible to enter into state banking contracts with the treasurer's office.

In addition to these actions, 20 Republican governors, led by presidential hopeful Gov. Ron DeSantis of Florida, have joined an alliance to use the resources of their respective states to stop the expansion of ESG investing. To date, the alliance includes Alabama, Alaska, Arkansas, Georgia, Idaho, Iowa, Mississippi, Missouri, Montana, Nebraska, New Hampshire, North Dakota, Oklahoma, South Dakota, Tennessee, Utah, Virginia, West Virginia, and Wyoming.

To see how these states, and others, are following suit at the state house and senate level, check out the list of bills that are still up for vote in the 2023 legislative session on pages 10 and 11.

ESG Legislation by State:



Sources: Ballotopedia and law firm Ropes & Gray, both of which are keeping track of each state's legislative activity.

CALL TO ACTION:

TELL YOUR STATE REPRESENTATIVES ESG FACTORS *ARE* PECUNIARY

Even though 14 anti-ESG bills have already passed in 11 states, the bills listed below are still up for vote. That means there is still time to call your representatives and encourage them to consider the facts at ESGTruths.com before they vote.

To see the full text of bills, and bills that have already passed, go to Ballotopedia and law firm Ropes & Gray, both of which are keeping track of each state's legislative activity.

BILL LEGEND:

S & ***SB*** = Senate bills ***HB*** & ***HCR*** = House bills ***LD*** = Legal Document

ALABAMA

***HB*188** prohibits a state or local governmental agency or other public awarding authority from considering ESG criteria or an ESG rating when awarding a public contract that has a value of $100,000 or more.

ARIZONA

***HB*2471/*SB*1139** prohibits the state treasurer from taking unnecessary investment risks or promoting nonpecuniary benefits or other nonpecuniary environmental, social, political, ideological, or other benefits or goals.

***SB*1500** requires a fiduciary of a state plan to consider only pecuniary factors when evaluating an investment or discharging duties with respect to a plan, and not to further nonpecuniary, ESG, or other benefits or goals.

FLORIDA

***HB*3** would require state investment officials to make investment and shareholder decisions based solely on pecuniary factors, prohibit bonds with third party ESG ratings from being issued if the ratings are negative, and prevents ESG-related procurement policies by state and local governments.

GEORGIA

***SB*266** and ***HB*481** amend the Georgia Public Retirement Systems Investment Authority Law to require a fiduciary duty to invest retirement assets solely in the financial interest of participants and their beneficiaries and prohibits any nonpecuniary interests, including the furtherance of any social, political, or ideological interests.

KENTUCKY

***SB*166** prohibits the consideration of or actions on nonpecuniary interests including environmental, social, political, and ideological interests.

LOUISIANA

***HCR* 70** requests the state treasurer and statewide retirement systems to report on investment advisors and companies that exclude fossil fuels from its investment portfolios or otherwise applies ESG criteria and contracts with any entity that boycotts energy companies.

MAINE

***LD*1562** aims to establish certain standards of care for fiduciaries of the Maine Public Employees Retirement System and generally prohibits decision making with regard to investments in the retirement system based on certain nonpecuniary factors such as environmental, social, corporate governance, ideological, or political factors.

MICHIGAN

***SB*1192** aims to amend the Public Employee Retirement System Investment Act to require fiduciaries to consider only pecuniary factors when evaluating an investment. Pecuniary factors do not include an effect that "primarily furthers nonpecuniary, noneconomic, or nonfinancial social, political, or ideological objectives."

MISSOURI

***HB*174** and ***SB*286** allow the House of Representatives, the General Assembly, and the Attorney General to review presidential orders and declare them unconstitutional including the regulation of the financial sector through the imposition of environmental, social, or governance standards.

***HB* 770** prohibits state agencies from using environmental, social justice, or governance scores or metrics.

***HB*824** requires investment advisers and their representatives to disclose to and receive prior written consent from a client before incorporating social or other nonfinancial objectives into their recommendations, solicitations, or investment selections.

***HB*769** requires an investment fiduciary in certain public employee retirement and pension systems not to consider ESG characteristics in a manner that would override fiduciary duties.

***SB*436** modifies provisions relating to fiduciary duties for investments of public employee retirement systems.

MISSISSIPPI

***HB*863** prohibits state agencies from publishing information, adopting laws or rules, or issuing guidelines for purposes of social credit scores or other ESG scores or metrics.

***SB*2849** clarifies that fiduciary duty means investing for highest return, with no investment decision being made with the primary purpose of influencing any social or environmental policy or attempting to influence the governance of any corporation.

NEBRASKA

***LB*743** requires an investment fiduciary to consider only financial factors when discharging fiduciary duties. Requires all shares held by or on behalf of a public employee retirement system, the participants, and their beneficiaries be voted solely in the financial interest of participants in the system and their beneficiaries.

NORTH CAROLINA

***HB*24** provides for legislative review or review by the attorney general of federal acts to determine the constitutionality of those acts and to prohibit the implementation of unconstitutional federal laws, rules, and executive orders. Including the regulation of the financial sector as it relates to ESG standards.

***HB*784** prohibits financial institutions from discriminating based on political affiliation or value-based or impact-based criteria, including environmental, social, and governance credit factors.

***HB*750** requires a fiduciary's evaluation of an investment take into account only pecuniary factors.

S737/S679 Overlapping bills address the use of ESG criteria by state agencies and state pension plan fiduciaries. Includes prohibiting nonpecuniary factors from consideration with respect to investment decision-making and proxy voting.

***S*679** provides fiduciary standards of care, delegation of authority, authority for voting on shares, and proxy voting requirements; prohibits consideration of non-pecuniary factors; authorizes the attorney general to enforce this act.

NORTH DAKOTA

***HB*1278** prohibits any designated agent acting as a custodian of securities purchased on behalf of funds managed by the State Investment Board from being a member of any association that has not publicly supported North Dakota's fossil fuel and agriculture industries. Requires agents offering advisory services to support such industries.

OHIO

***SB*6** prohibits the members of the public employees retirement board from adopting ESG policies or making investment decisions based on ESG factors.

SOUTH CAROLINA

***SB*634** expresses the sense of the Senate that public funds should not be dedicated to economic development projects that benefit a corporation that is actively engaged in promoting environmental, social, or political goals, objectives, or outcomes.

***HB*3690** prohibits consideration of nonpecuniary factors by the Retirement System Investment Commission in pension plan investments, allocating capital to an investment strategy, and proxy voting.

***HB*3565** requires an investment fiduciary to discharge his or her duties in the interests of the participants in a public employee retirement system and their beneficiaries for the exclusive purpose of providing financial benefits and taking into account only financial factors.

***SB*583** requires consideration of pecuniary factors and prohibits promotion of non-pecuniary benefits or outcomes when making an investment. Requires insurance companies, banking institutions, trust institutions, and credit unions to disclose how pursuit of non-pecuniary factors affects their services, if applicable.

***HB*3564** prohibits state governmental entities from entering a contract with a company for the purchase of goods or services worth at least $50,000 and paid at least partly from public funds unless the company verifies in writing that it does not engage in "economic boycotts" or use any ESG standards and will not do so during the contract term.

***S*111** prohibits all banks and financial institutions doing business in South Carolina (directly or indirectly) from discriminating against, advocating for, or causing adverse treatment of citizens or businesses when making lending decisions, including use of "social credit, environmental, social, and governance, or similar values-based or impact criteria" when making determinations.

WEST VIRGINIA

***SB*600** ensures that all shareholder votes by or on behalf of the West Virginia Investment Management Board and the Board of Treasury Investments are cast according to the pecuniary interests of investment beneficiaries.

***SB*182/466** prohibits financial institutions and governmental entities from discriminating against firearm entities because of such status.

MELANIE FELICIANO is co-owner of Georgic Media, LLC, and copy editor of Natural Investments. Mentored by the late futurist and environmental activist Hazel Henderson, her journalistic work has included coverage of the U.N. Conference on Sustainable Development in Brazil (Rio+20), the SRI Conference in Colorado, and Investors Circle conferences in San Francisco and Boston. She resides in Orlando, Fla.

ECONOMICS:

Market Report Summer 2023

BY SCOTT SECREST

STOCK AND BOND MARKETS rallied during the second quarter with large company stocks rising 8.7%, small company stocks up 5.2%, foreign stocks up 2.2%, while bonds declined 0.8%. As the quarter drew to a close, the U.S. economy has continued to hold up despite the Federal Reserve executing its fastest series of interest rate hikes since the 1980s. The interest rate hikes are intended to cool the economy and rein in inflation.

During the quarter, the U.S. narrowly avoided financial crisis as the House and the Biden administration inked a last-minute deal to raise the U.S. federal debt limit in early June, just days ahead of what would have been a first-ever federal debt default. Historically, raising the debt limit had been merely an administrative task, but the main objection of House Republicans was to the amount of government spending. True, government spending can exasperate the federal debt problem, though cutting taxes does the same.

While Republican leaders often deride federal deficits, adding to them has never appeared to be a serious concern of the party as it has routinely supported tax cuts without corresponding spending cuts, most recently in 2017. Such tax cuts reduce federal revenues thereby increasing the debt, leading to an inevitable collision with the debt ceiling.

Fiscal policy — government taxing and spending — is among the most common areas of political friction in Washington. The well-known Canadian-American economist and author, Kenneth Galbraith, wrote insightfully on the decisions we make as a society about the division of our nation's overall economic production between the share allocated for public expenditures (through taxes), and the share allocated for private wealth (after-tax incomes.)

> "Over the past 40 years there has been a significant shift in income concentration in the U.S."

The U.S. uses a progressive tax code, which involves higher tax rates for individuals with higher incomes. Theoretically, progressive taxation helps to reduce income inequality as a larger share of tax receipts are generated from the economic upper classes which the government spends on social programs and initiatives to benefit economic underclasses.

Over the past 40 years there has been a significant shift in income concentration in the U.S. According to the Pew Research Center, between 1970 and 2018 the income of upper-tier households increased by 64%, middle-tier households increased by 49% and lower-tier households by 43%. So those paying higher tax rates have been making more of the income. At first glance this might appear as a benefit for tax revenues as the expanded earnings of the higher earners are subject to higher tax rates. Though over that same period, the top federal income tax rate has dropped from 70% to 37%, thereby offsetting expected federal revenue gains.

The U.S. fiscal policy and economy are each complex and involve many variables. However, the overarching question central to our common welfare remains: how shall we divide our economic bounty between public expenditures and private wealth? Should we collect more taxes and use those resources to provide public services, support the vulnerable, fund Medicare and social security, maintain infrastructure, and provide for national defense? Or should we collect fewer taxes, and allocate a greater share to private wealth and personal expenditures?

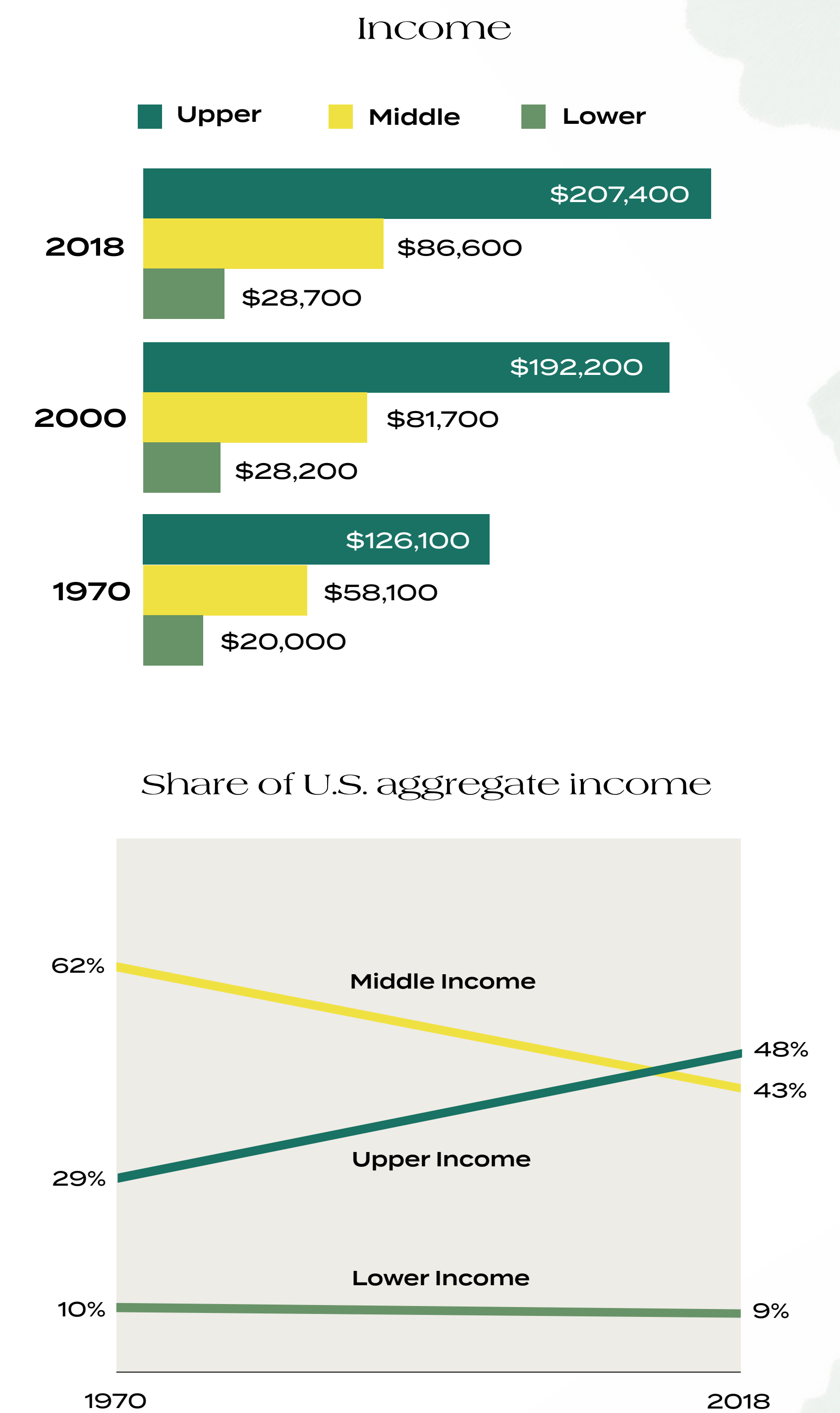
Galbraith observes, "In a community where public services have failed to keep abreast of private consumption, things are very different. Here, in an atmosphere of private opulence and public squalor, the private goods have full sway."

There is plenty of evidence of high-end lifestyles in the U.S., and most wouldn't deny folks the right to spend their money in the ways they desire. Though, as we see crumbling infrastructure and rising economic and social distress across our country, we must ask ourselves whether the drumbeat for ever-lower taxes has gone too far.

SCOTT SECREST, AAMS®
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 gaps in income between upper-income and middle- and lower-income households are rising, and the share held by middle-income households is falling

Median household income, in 2018 dollars, and share of U.S. aggregate household income, by income tier



Note: Households are assigned to income tiers based on their size-adjusted income. Incomes are scaled to reflect a three-person household. Revisions to the Current Population Survey affect the comparison of income data from 2014 onwards. See Methodology for details. Source: Pew Research Center analysis of the Current Population Survey, Annual Social and Economic Supplements (IPUMS).

IN THE NEWS
Summer 2023

IT SHOULD BE MANDATORY TO DISCLOSE POLITICAL INFLUENCE-SEEKING AND PAYOFFS FROM THE STATE

As of now, publicly-traded companies do not have to disclose contributions to political groups or lobbying efforts. The Securities Exchange Commission (SEC) is considering the addition of corporate political spending disclosures to its oversight.

Forbes

THEY WON'T WIN: MORNINGSTAR ESG EXPERT'S PARTING SHOT TO THE DOUBTERS

After nearly three decades at Morningstar, outgoing global head of sustainability research Jon Hale lays down his assessment of the SRI industry's trajectory before his retirement.

Morningstar

BLACKROCK, VANGUARD AMONG FIRMS BLOCKING KEY ESG VOTES

An environmental nonprofit's research concludes that the world's largest asset managers consistently vote against shareholder proposals that attempt to protect biodiversity.

Bloomberg

THE ALT-RIGHT ECONOMY IS FAILING

Grandstanding political ideologues are using opportunistic attacks on iconic U.S. enterprises to showcase their own nascent anti-ESG businesses and reportedly build a "parallel economy" catering to conservative constituencies. But far from flourishing, an objective review of the facts suggests these anti-woke jokesters are financially foundering.

Fortune

ACTION: WRITE YOUR LEGISLATORS URGING THEIR SUPPORT FOR ESG INVESTING

Various politicians and business owners have launched a well-orchestrated and well-funded campaign to discredit ESG investing. This rhetoric harms multiple stakeholders, especially workers dependent on thoughtful investment strategies that will enhance their future pension returns. Please consider sending a message to your legislators urging them to stand up for ESG investing and to protect the pensions of millions of American workers from unnecessary and significant financial risk.

Interfaith Center on Corporate Responsibility

CAN GUARANTEED INCOME PREVENT GENTRIFICATION?

In Louisville, KY community organizers are betting that a guaranteed income program will reduce community violence in disinvested neighborhoods — and protect against displacement of residents.

Next City

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