



An Evidence-Based Approach to Sustainable Investing

If there's one trait most of us share, it's a desire to make the world a better place. No wonder there's so much interest in sustainable investing. Who wouldn't want to try to earn decent, if not stellar returns, while contributing—or at least causing less harm—to the greater good?

But what is the greater good? What is a decent return? How do we make it all happen? Financial history leaves us optimistic that, over time, best practices are likely to emerge out of the bubbling brew that is our capital markets. For those who would rather not wait, it can be hard to identify a clear path forward. As a relatively new and fast-growing field, sustainable investing is crowded with opportunities and challenges, perspectives and priorities, strategies and terminology. Let's bring today's sustainable investing into tighter focus.

Sensible Sustainability

Let's be clear: We are NOT here to direct your personal moral compass. Rather, we'd like to offer objective insights, rooted in our evidence-based investment approach. An evidence-based outlook helps confirm when a theory appears to be robust in reality. It also suggests when a promising plan may not pencil out as hoped for—no matter how well-intended it may be.

While you're likely to find various terms sharing similar definitions in this crowded field, we'll refer to the broad subject as "sustainable investing." Call it what you will, recent research has found that different investors embrace sustainable investing for different reasons. Your own priorities govern the type of sustainable investing that best aligns with your personal goals:

- **Financial Priorities:** Some investors may not be as interested in investing "morally," but may do so anyway if they expect to earn higher returns from stronger-performing companies.
- **Impact Priorities:** Other investors may not care whether sustainable investing brings higher expected

returns, as long as they can shun "bad" companies and/or invest in "good" ones.

- **Blended Priorities:** Most investors fall somewhere in between: They want to earn solid returns (or at least not lose money) while investing in principled ways.

Doing Good

Degrees and kinds of "doing good" are often in the eye of the beholder. How do we measure something that is sometimes so subjective? Academics and practitioners alike typically turn to an organization's *Environmental, Social and Governance (ESG)* ratings to try to quantify levels of sustainability. The industry applies ESG ratings to a range of investment strategies:

- **Active Ownership:** Employing "shareholder power" to try to actively improve a company's ESG performance (engaging senior management, submitting proposals, proxy voting, etc.)
- **Negative Screening:** Explicitly excluding firms with low ESG ratings ("This company is too 'wicked' to belong in my portfolio.")
- **Positive Screening:** Explicitly including firms with high ESG ratings ("This company is at least 'good enough' to belong in my portfolio.")
- **Inclusion Strategies:** Integrating ESG data into existing evidence-based analyses, melding the information into a systematic, total portfolio management strategy.

Investors currently have access to a range of investment solutions that incorporate these and other strategies to varying degrees.

ESG Investing: ESG investors are more likely to emphasize inclusion strategies, which complement a general evidence-based investment approach. In other words, evidence-based ESG funds should help investors continue to incorporate sound portfolio

construction principles (such as asset allocation, global diversification and cost control), and minimize less-efficient tactics (such as picking specific stocks or sectors based on forecasts or popular appeal).

Socially Responsible Investing (SRI): SRI funds are more likely to use screening strategies that involve making security- or sector-specific judgments or forecasts.

Impact Investing: Impact investors are on a mission to not just invest in a venture, but to become an altruistic partner in it. On a grander scale, high-net-worth investors may take on private equity or debt structures with an eye toward making an impact with their funding.

A Standard Challenge

We are optimistic that evidence-based ESG investing can grow increasingly relevant as it matures and melds into our existing best practices. That said, we face a noteworthy challenge in this still-nascent field: Strong, time-tested company reporting standards remain a work in progress among ESG practitioners.

For example, "Why and How Investors Use ESG Information" suggests one of our biggest decision-making challenges is "the lack of comparability of reported information across firms." Also, ESG is not one thing—it's three. Not surprisingly, environmental, social and governance standards are developing at different rates, based on various demands and practicalities.

How do we balance an investor's desire to invest "ethically" with our fiduciary duty to advise them according to their highest financial interests? The goal is simple enough: We'd like to provide both. We will continue to collaborate with other evidence-based professionals and academics. Together, we hope to discover and deliver increasingly effective ways to incorporate sustainable investing into investors' globally diversified portfolios. We've only just begun!

Until next time, no regrets!

David Bromelkamp
President and CEO

NEW EMPLOYEE SPOTLIGHT:

Naomi Black



Role at Allodium: Client Service Associate

Joined firm on: 7/29/2019

Hometown: Darlington, Wisconsin

Favorite movie: You've Got Mail

Favorite book: Harry Potter

Favorite TV show: Star Trek: The Next Generation

Favorite food(s): Chipotle Burrito Bowl

Favorite news source: Twitter

Favorite place in Twin Cities: Maxwell's American Pub

Favorite gadget/technology: Bluetooth earbuds

Favorite activity: Cuddling with cats and reading a good book

Favorite music: John Mayer

Person I admire most: My dad because he is smart, kind, and he independently built his own consulting business from the ground up.

What I'm most thankful for: Having a close-knit family and being able to love on all of my adorable nieces and nephews.

Headlines

- Allodium was named as one of the Minnesota Registered Investment Advisory (RIA) firms in the RIA Survey and Ranking 2019, as published by Financial Advisor Magazine in the July 2019 issue.
- The Centre for Fiduciary Excellence (CEFEX) has recertified Allodium again in August 2019. The CEFEX assessment process is based on rigorous ISO 19011 standards for quality management system auditing.
- Anne Ward and Eric Hutchens were awarded the Five Star Wealth Manager recognition for 2019.
- Allodium was pleased to welcome nine new clients into the firm during the second quarter of 2019.
- Our office will be closed November 28 and 29 for Thanksgiving company holidays.

Note: To find out more about Allodium's breaking news, please visit our website: www.allodium.com.

Upcoming Events

September 19, 2019

Dave Bromelkamp will be moderating a discussion on "Practical Steps Toward ESG Integration" at the 6th Annual Great Plains Institutional Forum at the Hyatt Regency in Minneapolis.

September 24, 2019

Dave Bromelkamp will be a speaker on the Advisor Best Practices panel at the Sustainable Investing Solutions Conference at the Minneapolis Club.

October 10, 2019

Join us at our Fall Wealth Management Event entitled *Generational Wealth—Successful Transfer Strategies*. Anne Ward, Eric Hutchens and Kari Cedergren will discuss ways to minimize estate taxes and strategically transfer wealth to the people and causes you care about. The event will be held at Golden Valley Country Club.

For more information about this event, please contact Ilona Avraamides at (612) 230-3711 or iavraamides@allodium.com.

An investor without investment objectives is like a traveler without a destination.

Anonymous

Steward is published quarterly by Allodium Investment Consultants. Please contact Ilona Avraamides at 612-230-3711 or iavraamides@allodium.com if you have any comments about this publication or wish to be added to or removed from our mailing list.

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