

Building Sustainable Community

by Malaika Maphalala

Gender Lens Investing

The Economist lays it on the line: “Forget China, India, and the internet—economic growth in the next decade will be driven by women.” Indeed, it’s already begun, with women’s incomes worldwide growing from \$13 trillion in 2009 to \$18 trillion by 2014. That \$5 trillion of growth is almost twice the growth in GDP expected from China and India combined during that period, making women the world’s biggest emerging market. Even Goldman Sachs, while not my favorite authority, says, “investing in women is the single best way to reduce inequality and drive economic growth.”

Gender equality in economic structures will both promote economic growth and make the world a better place. While the World Bank wants to “make women more competitive in financial markets,” it misses the vital point that financial markets need to be reframed to value the work that women *are already doing*. Hence the importance of a new conversation emerging in the investment field: Gender Lens Investing. Gender Lens Investing says that when we acknowledge the competitive advantage that gender inclusiveness brings

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Making a Difference by Michael Kramer

Sustainability vs. Resilience

Around the country, contested zoning reclassification hearings are a common occurrence. In Kona, Hawaii, where I live, owners of a large coastal open space property that was zoned for conservation recently sought to rezone within the urban boundary and develop it as a luxury resort and marina. The developers made an outstanding effort to make the development “green,” which was encouraging. While most of the testimony covered the usual “jobs vs. environment” and overburdened infrastructure arguments, I suggested that no new coastal development should be approved in Hawaii due to the real threat of rising sea levels.

My argument wasn’t merely about protecting human life; it was also about making a potentially catastrophic investment decision. The response to my testimony was silence; it was not an argument the Land Use Commission, nor the audience, had likely ever heard. But I was not trying to be Chicken Little; I was asking people to think about an emerging future and plan responsibly, not only from a survival perspective but from a financial one as well. It would make little sense if the human response to climate change was not only a biological catastrophe, but also bankrupted us. But as history shows, the failure to invest one’s resources wisely can disrupt and even extinguish civilizations. Some

say we’re well on our way.

With Hurricane Sandy illustrating the peril faced by low-lying communities, and with several Pacific Island nations facing relocation of their entire populace, it’s clear that climate change is proceeding rapidly and that the consequences are both real and severe. How do we allocate our human, tangible, and financial assets and resources in a manner that might minimize further disruptions? History will judge us on our ability to make choices that foster resiliency in the face of the ongoing changes, and everyone knows that preventative measures are far more effective than crisis intervention.

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to business, as well as the remarkable social and financial impacts connected to empowering women economically, we will make better investment decisions and ultimately transform our global economy.

One of the key reasons investment in women's enterprises globally has far-reaching social impact is that as a woman's earnings grow, on average 80% of her profits will flow to improve the lives of her children and family through better nutrition, health care, education, and housing. That's compared to just 30% of a man's profits. This means that investing in women more than doubles the positive impact on primary drivers of long term, intergenerational change, and reduction of hunger and poverty.

Financing in agriculture is just one excellent demonstration of the huge disparity in access to capital between men and women. Women do over 50% of the world's agricultural work (up to 80% in some regions), yet receive just 10% of financing for agricultural enterprises. The UN's Farming and Agriculture Organization estimates that if women had the same inputs as men farmers, their yields would increase 20-30%, creating the potential to lift 120-150 million people out of poverty. Root Capital, a social investment fund and a leader in Gender Lens Investing, chose to establish the Women in Agriculture initiative in 2012. They understood that directing money toward women involved in farming would be a powerful force in breaking the cycle of poverty and hunger in rural areas of the developing world.

Intentionally working to direct financing to women meant shifting how they went about selecting their investments. Women often farm different crops than the large-scale wholesale commodities that attract most agricultural financing. So, Root Capital looked at what commodities they could be investing in to reach more women. Their initiative focuses on industries that traditionally employ large percentages of women, such as wild-harvested crops, staple food products, and agro-processing, as well as businesses led by women entrepreneurs and managers.

One of my favorite stories out of Root Capital's initiative is the story of CADO, a cooperative of small-scale organic sugar cane growers in the Ecuadorean Andean region. Their dynamic president, Cecelia Arcos, is a third generation farmer who tends the same field that belonged to her grandmother. Cecelia and the other cooperative members had long been growing sugarcane and brewing it into a strong alcohol with a rich cultural history as both a beverage and a medicine. Through Root Capital's financing, and connecting with international buyers like Dr. Bronner's and The Body Shop, the cooperative was able to secure a steady market and premium prices for their organically produced alcohol,

for use in soaps, perfumes, and cosmetics. They have become the first-ever exporter of fair-trade, organically certified alcohol (the accompanying photo shows purification testing), and their sales volume has nearly tripled in the last two years. As a gender inclusive cooperative, half of their members are women whose families are benefiting



from the increase in income, and Cecelia herself has become a powerful role model for other women farmers in a male-dominated society.

Beyond the outsized social impacts connected to investing in women, studies show that gender inclusiveness in business offers a significant competitive advantage. Credit Suisse reports that corporations with a higher proportion of women in top management show more successful growth in terms of operating results, employee satisfaction, public image, and stock price. By a lot. Companies with three or more women on their boards have a 53% higher average return on equity. Apparently management made up of both sexes makes for stronger teams that are better at solving problems and spotting threats, making these companies better investment choices.

And as investors, studies show that women tend to do better than men. They consistently earn higher returns and are also more drawn to think beyond financial returns to include social and environmental values in their investment decisions. We see this clearly at Natural Investments where our client base is made up of disproportionately more women than men. Some years back, my colleague, Michael, in noting this disparity, said "I think it's because men tend to make investment decisions using their left brain, and women..."—I braced myself for the seemingly inevitable (and sexist) conclusion that women invest with their right brain, but was happily surprised when he instead concluded—"and women use their whole brain." Wow. Looking to the future, as women's economic clout grows, so will their power to shape the global economy. And by all indications, it will be a change for the better.

In permaculture (sustainable design), which I've been teaching for over twenty years, one of the principles is to design for catastrophe. Planning for the worst-case scenario isn't a luxury of thought or a sign of negative thinking—it's a survival necessity, and given the financial consequences, requires thoughtful and intelligent planning. This is familiar logic in other aspects of life: having a basic savings account, business reserves, and a government rainy day fund reflects this sensibility. But designing for unexpected—or sporadic but predictable—events affects every aspect of life. Folks in Hilo know this well; two tsunamis destroyed its bay front neighborhoods decades ago, and they remain intentionally undeveloped open space for a reason. But the acknowledgment that nature cannot be ignored still hasn't seeped into mainstream consciousness. After recent and more extreme fire, flood, and hurricane catastrophes, most people just rebuild in the same place again, writing off the disaster as a solitary event rather than part of a pattern.

The same can be said for investment. Financial professionals are well prepared to speak about the cycles of markets as a way to encourage investors to stay the course and not panic in periods of economic downturn. This attitude is based not only on failure to see destructive systemic patterns, but also on looking backwards, for it presupposes that the future will look very much like the present.

But what if that's not true? What if ecological limits revealing themselves as climate change, overpopulation, bee colony collapse, and resulting food and water scarcity illustrate that this time it's different? Whether one believes we're headed for trouble or that our collective ingenuity and sustainability ethic will help us to break through to a more evolved way of living—who truly knows? —the fact is that the volatility and unpredictability of this era in human history, combined with a level

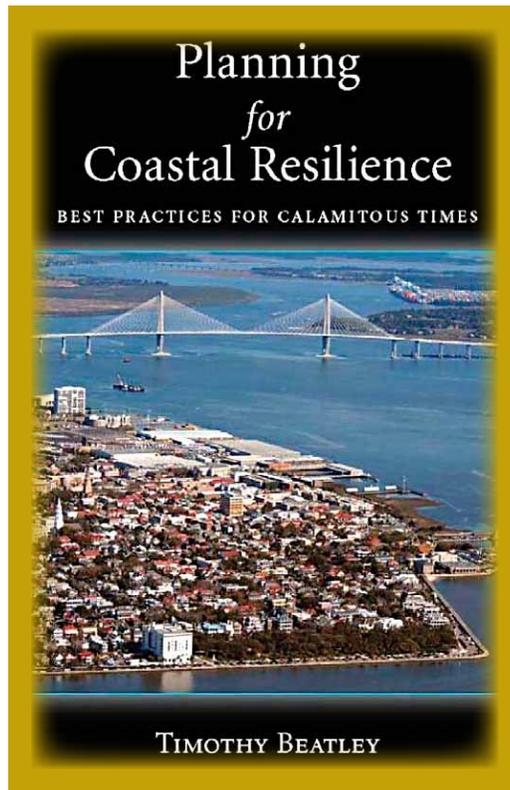
of global interconnectedness never before experienced, is an entirely new reality for us all. How we choose to steward our human and natural resources is the essential issue of our time. All of it is a form of investment, and our capacity to be resilient in the face of these challenges will determine our rate of return and success by whatever measure one prefers.

Most of Hawaii's population centers and economic engine, like many major American cities, are highly vulnerable to sea level changes. And yet we proceed with business as usual, not only failing to invest in ways to protect these settlements, but failing to invest sufficiently in the economic solutions that might enable future generations to survive and thrive.

Investors by definition are driven by need for financial return, and yet people continue to invest in industries and activities that put humanity at risk, such as fossil fuels, toxic chemicals, exploitive methods of production in the apparel and other industries, and coastal development that carry such inherent risk that a financial professional cannot legitimately call them prudent investments, as securities law requires.

A more comprehensive investment approach is needed to change this, one that takes the ethic of care of people and planet to heart in every decision made. Human business ingenuity and all the personal shopping, banking, investing, and lifestyle choices in our daily lives should prioritize a fossil fuel free way of life as quickly as possible. This means buying local and living as plastic-free as possible, and it means using as many organic and biodegradable resources as possible.

It also means investing our surplus cash—including our retirement accounts—in companies and infrastructure projects that create a more regenerative way of life, here and elsewhere. These choices are readily available. We just need to make the commitment.



Restored wetlands and flood berm from Coastal Roulette: Planning Resilient Communities
<http://www.asla.org/2012awards/264.html>

Beyond the Headlines

The Future of Impact Investing

by James Frazier

Recently, the Natural Investments team united for a series of exciting gatherings in the San Francisco area. In our most significant annual tradition, the advisors of NI leave our widely dispersed homes and communities, and come together to help move our industry, and our firm, forward into the future. This year we met at the SOCAP (Social Capital Markets) conference, which offered a fresh perspective on the future of impact investing. Adding in a half-day event focused on local investing before the conference, and a three-day retreat for Natural Investments advisors after the conference, we departed Northern California invigorated and enthusiastic about the work we do and where it's all headed.

The big week kicked off with the Community Capital Symposium, an event dedicated to advancing the local investing movement. The mission was to empower community-based ventures and locally focused investors to build thriving communities together. As coordinator for the nonprofit Local Investing Resource Center, I helped organize this event with several leaders in the local investing field and in the city of Oakland, where the event was held. A capacity crowd of over one hundred showed up on Labor Day (no small feat on a national holiday!) to learn about how both for- and non-profit entrepreneurs can use existing and new techniques for raising community capital, how investors can find and evaluate local investing opportunities, and how community organizers and activists can help build a "community capital ecosystem." This ecosystem consists of partnerships between the people (such as local investors and entrepreneurs) and institutions (such as Small Business Development Centers, Economic Development Councils, community colleges, local banks, etc.) that can help connect qualified investment-ready businesses with local financing. By the end of the day, participants were feeling excited about the opportunities to keep investment dollars, and returns, circulating within their own local communities.

The very next day, SOCAP began in San Francisco, bringing together almost two thousand people from all over the world to advance the field of impact investing. The energy and the youth of the crowd were palpable. The conference

focused on entrepreneurs and the power of business to create innovative, cost-effective solutions to the world's problems. This incredible sense of optimism was likely due to our proximity to Silicon Valley, hotbed of the technology industry and its multi-decade track record of churning out world-changing products, services, and ideas. Rather than focus their efforts on large, established public companies, as the SRI industry tends to do, the SOCAP crowd was all about building change from the ground up, by seeding lots of businesses that blend the cost efficiency and speed of a tech startup with the social mission of a nonprofit. The rationale for this? Many of these startups will fail, leading to lessons learned, while some will succeed incredibly, and as a result, society will evolve in ways we cannot anticipate. This blurring of lines between for-profit and non-profit, and even between failure and success, was a recurring theme that we can expect to see more of in coming years.

How was this relevant to investors? A large part of the conference was about how to channel investment into the best ideas—the ones that help make life better for people and planet. We met with an amazingly wide variety of fund managers that have developed investment products that blend social and environmental impact with investment returns. These ranged from lending money to small and medium-sized businesses in the developing world, to buying up American farmland and converting it to organic. It was heartening to see that some of these investments are open to non-accredited investors, generally meaning people with less than \$1 million in net worth. The movement to bring these types of impact investments to the investing public at large seems to be gaining strength, and getting results, slowly but surely!

After SOCAP was a wrap, the Natural Investments advisors retreated to Sonoma County for a few days of team building. We shared wisdom on how to improve our individual practices, our investment process, and our use of technology. We ate together, relaxed, and visited redwood forests and local wineries. In the end, it was sad to leave, but at the same time, very empowering to bring all of the insights we shared, and connections we made, back to our homes and communities, to be put to work for our clients and for the world as a whole.



Investing for Social Change

by Andy Loving

In my “previous life,” working with the United Farmworkers as a young adult, then co-founding a magazine focused on hunger and economic justice, and later being a minister to the homeless, I liked to say that my work was organizing people. When social investing emerged, it seemed a natural extension of this work, and now I see myself as organizing money on behalf of social change.

Yet even within the world of sustainable and socially responsible investing (SRI), there has been a tendency to become trapped in the box of typical investment-think. For so long, we’ve focused on being able to say that screened investments match the returns of unscreened investments. But in focusing so predominantly on this aspect of SRI, we’ve adopted the priorities and goals of mainstream investing.

We can’t let ourselves lose sight of the core purpose of our choice to bring our values to bear in our financial decisions: to foster positive change. Returns matter, of course, but we want to achieve those returns in a way that supports our vision for a healthy, sustainable, equitable world. Put another way: we want to make a living, not a killing.

SRI is more than just screened portfolios. Shareholder activism and community investing are also tools used to bring the full weight of our conscious investments to the challenge of effecting social change. Based on these three facets of social investing, SRI has been described as a three-legged stool. All legs must stand together for the stool to be its most effective. In reality, those three legs are more like a trunk, a stick, and a splinter.

The SRI industry has done a good job at developing mutual funds that maximize financial returns, but this emphasis has led the screened investments leg of the SRI stool to become a trunk, vastly outweighing the other legs of shareholder activism and community investing. Shareholder activism has carved out a strong niche of its own. Still, compared to screened investing, it is but a stick, rather than a proportionate leg of the SRI stool.

The splinter? Community investing. It was considered radical when the SRI world rolled out its “1% for community investing” initiative a decade or so ago. Natural Investments was out on the leading edge in suggesting that 5-10% could make sense for some clients and be more in line with their values.

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Screened investing is definitely an improvement over conventional investing, but it’s just a first step. The actual social change is taking place in community investing. In the years before there were viable community investment, global microcredit, and local investing opportunities, we mostly relied on tithing and philanthropy to foster social change. But today, countless loan funds can cycle and recycle your money to groups, individuals, and small companies that are making a real difference in their communities—empowering and lifting people up in ways that philanthropy may not, because loans are a transaction between equals.

If social change is your goal, how do you prioritize that as you build your portfolio? How much of your money do you want to put into things that more pointedly and directly facilitate social change? Of course, your answer will depend on your personal life-planning situation. But many of us have the potential to greatly expand that splinter of community investing to increase our social returns.



Several years ago, David Korten, in an address to SRI advisors, suggested that the question isn’t, “What is the maximum return?” but “What is the just return?” It’s time to reflect on what is, for you, a “just return.” Can you let a larger chunk of your portfolio do more dramatic social change work, without needing it to grow at the same pace

as the rest of your portfolio? This is another variation on the global themes spurred by climate change and resource depletion: how much is enough? What do you really need in order to live a fulfilled life?

With income inequality only increasing, most of us with the luxury of even owning investable assets should be willing to consider having a significant portion of our money out there returning valuable social benefits. Would 20% be too much? One-third would even the legs of the stool! Some of our clients are comfortable enough that they don’t need their portfolios to grow much at all, and the bulk of their money can be truly serving. What is YOUR just return?

NI's 1% Donations: Project Warm

by Carrie B. VanWinkle

Each year, Natural Investments is committed to donating 1% of its earnings to local, national, and global organizations doing work that creates positive change in the world. There's a richness to the stories of these organizations—and we'd like to share some of these stories with you, since you're a part of this positive impact as a client of Natural Investments.



Each advisor is able to direct how their part of the 1% will be donated. Just Money Advisors, NI's Louisville based office, has a team of four. The four of us had an equal weight in the decision, and chose six different nonprofit organizations. We were all excited to call the organizations and let them know that we had a gift for them. Each one of them warms our hearts and stokes the fire in our bellies as a part of the change we want to see in the world.

The Just Money Advisors team contributed to a range of organizations. One, Oikocredit USA, has a national reach, and the other five play key roles in our region: Slow Food Bluegrass, Kentucky Labor Institute, the Southern Indiana Asset Building Coalition, Kentucky Interfaith Power and Light, and Project Warm.

As a part of sharing the NI life, we'll be highlighting some of these organizations, so that you can get to know them and the inspiring work that they do.

Project Warm

The story of Project Warm begins with the dedicated leadership of its Director, Frank J. Schwartz. Frank began as a volunteer with Project Warm in 1982, at a time of high unemployment and high utility costs. Volunteers, often laid-off workers, were trained to do

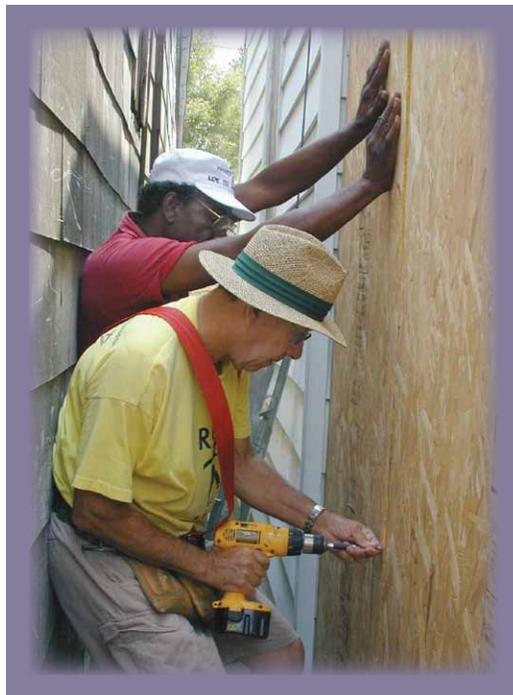
simple energy repairs at the homes of seniors. After working on three additional homes they were eligible to receive the same set of weatherization and energy efficiency materials they learned to use. For many years, Frank was the volunteer coordinator for thousands of community volunteers coming through Project Warm. Later, Project Warm instituted community based energy education and he became the education director as well. Frank is known throughout Louisville for his dedication to Project Warm—and for his commitment to living a life that reflects his values of living lightly.

He has been an advocate for energy conservation on the household and community levels, and works in the trenches on behalf of affordable housing. The transportation system is a big environmental, financial, and aesthetic problem for our community; Frank has chosen to view biking, walking, and using public transportation as a first choice before driving his automobile.

Frank continues to be inspired each day through his work at Project Warm. One of the highlights for him is witnessing the interactions between volunteers and the recipients of Project Warm's energy efficiency services. Project Warm holds an annual Blitz, which brings together over six hundred community volunteers who work in teams to

winterize homes for some of Louisville's most vulnerable community members: seniors and disabled residents.

Project Warm impacts both the recipients of their weatherization services and the volunteers who come together to make a difference. Countless numbers of volunteers have had an opportunity to be of service to their fellow community members. In Frank's eyes, "even for just that reason, Project Warm has been worth it. It's a conduit for people to be engaged—to visit a home that they might not ever have entered—to help an older couple, a widow, and other neighbors in need."



To learn more about the work of Project Warm, please visit their website: www.projectwarm.org

The Virtues of Slow Growth

by Scott Secrest

It's been five years since the collapse of some of Wall Street's largest financial institutions and the ground falling out from under the U.S. economy. With that, the stock market plummeted, unemployment skyrocketed, and the housing market imploded. Since then, we've seen the stock market recover relatively quickly, though a broader economic recovery has been more elusive than expected. As we'll suggest below, there may be a silver lining in this slow growth.

Looking at recent results, in the 3rd quarter we saw large company stocks in the U.S. rise 5.2%, small domestic company stocks rose an impressive 10.2%, and foreign stocks surged some 10.9%. Rebounding from negative 2nd quarter returns, bonds overall rose 0.6%. Globally, cleantech stocks rose 15.1% with solar companies posting strong results.

Perhaps the most notable event during the quarter was the Fed decision to maintain their \$85 billion per month economic stimulus program in full, rather than beginning to taper off the program beginning in September, as had been widely speculated. In the end, they bowed to continued concern over the strength of the economic recovery.

Budget battles in Washington are creating an unnecessary drag on the economy for the third straight year. The trouble suggests more drama could be in store in the process of raising the federal borrowing limit by mid-October to avert an unprecedented U.S. debt default. The mid-2011 debt-ceiling drama, even though it concluded in a budget deal, triggered a downgrade of the nation's credit rating, sparked a swift stock-market sell-off, and damaged confidence in the ability of the U.S. to manage its public finances.

Though an increase in the debt ceiling remains likely, there's still the potential for considerable turmoil. If the budget battles stretch out through the end of the year, Washington is unlikely to accomplish much to help the economy before a midterm election year raises the political heat further. That would likely mean no long-term budget deal, no major changes to immigration laws, and no new investments in infrastructure.

On the positive side, Europe appeared to move from recession toward recovery, as the second-quarter GDP

figures announced in July turned upward for the first time since 2011. Many economists thought the European recession might extend all the way through 2013.

Among all of the conversation about the pace of economic growth since the Great Recession, it can be helpful to revisit some of the broadly held assumptions about what rate of growth is optimal. Slower growth may come with some complications (particularly in job creation), though it can also be more sustainable, less inflationary, and less wasteful.

In the post-World War II era, the average GDP growth rate in the U.S. has been about 3.2%. This year it's expected to be roughly 1.5–2%. A variety of factors are at play in slowing economic growth, including demographic changes (primarily retiring baby boomers) that reduce the size of the U.S. workforce, public and private deleveraging (paying down debt), and flattening of growth of higher education degrees in the U.S., among others.

The suits in the corner offices on Wall Street would surely lambast us for saying this, but we believe that slower growth might actually be a more desirable state. There are compelling reasons for this view.

First of all, there's less waste in a slow-growth environment. During periods of rapid growth, a "get it while you can" mentality develops, encouraging businesses to forsake prudence and thriftiness for rapidity in getting products to market and revenue on the books. There tends to be less concern for efficiency in the pursuit of greater production, and resources get squandered in the rush. Did you ever read *The Lorax*?

Further, when we have a slower growth rate, it often comes with less volatility. This means more reliable economic forecasting which can help with business planning. When businesses don't know if they'll see 6% growth or minus 2% or plus 2%—and we've had volatile successive quarters like this—it's very hard for businesses

to plan and execute efficiently. Slower growth tends to be steadier and more predictable, which enables more effective strategy planning.

Since the Great Recession, we've experienced the slowest recovery on record among similar post-recession periods—but also among the longest. The recovery that we've experienced has lasted for several years now, and it's partially because we haven't had explosive growth; we had a slower, more sustainable growth rate. This could be an example of a move away from wild economic swings between high growth and recession.

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