

BUILDING RESILIENCE





Message From Clean Yield



Dear Friends,

When we shifted our quarterly newsletter to an email format eight years ago to lessen our environmental impact, we knew that many would miss the tactile experience of a print publication. In recent years, and with flooded inboxes, we have found it difficult to cut through the digital clutter—and we decided it was time to publish something on paper that captures the spirit of Clean Yield.

Clean Yield's essence is reflected in our weekly investment committee meetings where conversations range from fundamental financial analysis to company social practices and updates on our various private investments (and staff wildlife sightings). Recently, the theme of resilience has emerged—a theme that truly hits on all aspects of our work and will be a particularly important lens as we move forward.

This publication is a compilation of Clean Yield's recent writing that we hope will give you a sense of how we seek to build resilience. It includes accounts of our advocacy and impact investment work, excerpts from blog articles, as well as a review of our company's footprint and philanthropy.

As always, we hope you enjoy this publication and welcome your feedback.

Sincerely,
The Clean Yield Team



SHAREHOLDER RIGHTS FOR POSITIVE CHANGE

As owners of public companies, investors are uniquely positioned to advocate for change through shareholder advocacy. Clean Yield actively engages with portfolio companies across a range of issues, with the goal of sparking material change. Our engagement with Tractor Supply Company around bee-killing pesticides gives a behind-the-scenes look at advocacy.

FROM STICKY TO SWEET AT TRACTOR SUPPLY

Concerned about bees? We are too. We see the important role they play in supporting a healthy, sustainable food system. Also, we like honey. Awhile back, the Clean Yield team discovered that Tractor Supply Company was in a potentially sticky spot. It appeared to be selling products containing bee-killing pesticides called neonicotinoids (“neonics”) while also promoting beekeeping! We worried that selling neonics could sting Tractor Supply’s reputation.

We wrote a letter to the company trying to ascertain if the company was thinking about the risk of selling these products. After sending two letters with no response, we decided to tap into the hive mind of investors engaging with companies around safer chemicals. Together with our friends at Trillium Asset Management, we filed a proposal asking the company to report on the risks of selling pesticide-containing

products linked to pollinator decline.

In response, Tractor Supply wanted to discuss the issue. During a call, we learned that the company shared our concerns and had already identified products containing neonics and had taken steps to remove them. They were also surveying their live plant suppliers to determine if neonics were being used on live plants sold by Tractor Supply. After a good discussion, Tractor Supply agreed to update its sustainability report and beekeeping site with information about these measures. We were pleased to see the company move to eliminate neonics from its shelves and supply chain and take steps to educate its customers and investors about this issue. Removing neonics from shelves and live plants helps the bees. Educating its broad customer base on this issue really helps the bees—and potentially our food system. Well done, Tractor Supply!

LEVERAGING PRIVATE CAPITAL FOR HIGH IMPACT

RECENT CLEAN YIELD IMPACT INVESTMENTS

- ▮ Coastal Enterprises Inc.
- ▮ Sunwealth Note LLC
- ▮ Lyme Forest Fund
- ▮ High Mowing Seed Co.
- ▮ The Skinny Pancake
- ▮ Iroquois Valley Farms

We help our clients make a positive difference in the world through investments in community loan funds and via private placements in mission-based companies and funds. These investments support both the economic resilience of our communities and the ecological resilience of the planet, as illustrated by Iroquois Valley Farmland REIT.

INVESTING IN REGENERATIVE AGRICULTURE

Iroquois Valley Farmland REIT is one of Clean Yield's flagship private investments. We first connected with Iroquois founder David Miller at a Slow Money gathering in 2011 and were immediately impressed with his humble commitment to regenerative agriculture and the well-being of farmers. David had developed a way for investors to participate in the ownership of organic farmland that increases farmland accessibility and security for small and midsize commercial organic farmers. Iroquois purchases farmland and enters into seven-year evergreen leases with organic farmers, with a focus on next-generation farmers.

When Clean Yield first invested, Iroquois owned 15 farms and a total of 1,800 acres. Now, Iroquois owns or holds mortgages on nearly 10,000 acres of organic or transitional farmland and works with 43 farm families on 56 unique properties in 14 states.

Recently, Iroquois began offering short-term mortgage financing to farmers who prefer to own their farms from day one. One of the first farm families to engage with Iroquois this way happened to be in Strafford, Vermont, just two towns from Clean Yield's offices. Strafford Village Farm (pictured) was Iroquois' first investment in Vermont, as the company financed the purchase of 178 acres for a diversified livestock and vegetable operation.

Iroquois' success has hinged on its ability to attract capital from patient investors who are willing to take lower financial returns in exchange for the positive nonfinancial outcomes that the company has produced. With many conventional farm lenders remaining hostile to organic production, Iroquois' services are critical to supporting the ongoing growth of regenerative agriculture.



Clean Yield Insights



SAFER PRODUCTS FOR EVERYONE

Have you noticed that most water bottles are labeled BPA-free? The ubiquity of this label may stem from a slip-up made by Sigg USA. When consumers first got concerned about BPA (an endocrine disrupter) in their plastic water bottles, many flocked to the seemingly safer metal water bottles offered by Sigg. A reckoning came when it was discovered that, in fact, Sigg's metal water bottles were lined with a BPA coating. Apparently, the company had known this but did not disclose it to consumers. The CEO quickly apologized and the company refunded customers, but those refunds proved too costly and Sigg USA declared bankruptcy.

We see a compelling business case (see Sigg story above) and a strong tail wind for companies to shift to safer chemicals driven by changing consumer preferences, despite this administration's efforts to roll back chemical regulations. Recently, some heavyweight retailers—Walmart, CVS, and Target—have made commitments to clean up products on their shelves. These announcements mean big changes for their vast web of suppliers, which must reformulate products to comply with retailers' demands. There is also money from companies such as Target and Patagonia going into developing the ingredients that will enable this shift. Heck, there is a whole fund dedicated to it. Safer Made is a private equity fund that invests in technologies and products that deliver superior performance without using harmful materials (disclosure: Clean Yield clients are invested in this fund). While these data points

alone may seem small, together they highlight the breadth of players directing capital to develop safer chemicals.

Sure, we're a long way from seeing companies embrace the precautionary principle, but we think these developments are significant. As investors, we are ready to help companies realize the importance of shifting to safer chemicals across the spectrum of products and price points. Even if companies don't need to do it for regulators, they will surely do it for Walmart.

TROPHIC CASCADES AND THE PUSH TO BE BETTER

"Trophic cascade" is the term used by ecologists to describe the impact to an ecosystem of adding or removing a predator at the top of the food chain. A recent example is the reintroduction of grey wolves to Yellowstone in 1995. In the relatively short time since reintroduction, scientists have observed that the willow population has become more robust (because the wolves keep elk from overeating willow) and the beaver population has grown (with better food sources from the willow). These well-fed beavers have also created new dams and ponds, which serve as cold-water habitats for fish and recharge the water table.

The concept of trophic cascade is relevant outside of ecology because it is a model for understanding complex, interdependent systems. It challenges us to think about our own ecosystem: What are the things and people that we impact in our network, and what are the things that impact us? What are the ripple



effects of decisions that we make? We think hard about these questions, because, as a B Corp, we know that we make better decisions when we consider all stakeholders.

With seven employees and a leased office in a rural area, we must focus our efforts to be a business for good. This year, we will be exploring our various stakeholder relationships and thinking about our ecosystem and where there may be opportunities for us to spark positive systems change.

As a proud member of the B Corp movement, we must more fully consider community stakeholders and help be a force for good in the broader economic and business community. Clean Yield may not be the wolves in Yellowstone, but we hope that the B Corp movement can ignite a trophic cascade of good.

NIGHT SCHOOL: DON'T FIGHT THE FED

After a series of financial panics, Congress passed the Federal Reserve Act in 1913, which created the Federal Reserve System, the central banking system of the U.S. The Fed was granted the authority to issue Federal Reserve Notes (the U.S. dollar) as legal tender. The goal was to create a national currency and monetary system that could respond effectively to stresses in the banking system and create a stable financial system. Fed policy is important to investors. When Fed policy is “loose” (interest rates are low or decreasing), it provides ample funds to the financial system, which tends to lift stock prices. When policy is “tight” (interest rates are high or increasing), the Fed restricts

funds in the system, which tends to cause stock prices to fall. Fed policy is one of the key factors Clean Yield uses when assessing the stock market outlook.

The Fed's primary responsibility for more than six decades was to control inflation in the prices of goods and services so as to foster predictability for businesses and consumers in making purchasing and investing decisions. But in response to rising unemployment in the 1970s, Congress added an additional mandate for the Fed: to promote maximum employment. This dual mandate—controlling inflation and maximizing employment—is inherently contradictory. Controlling inflation requires a “tight” policy of maintaining high (or rising) interest rates as economic activity heats up. Maximizing employment, however, requires a robust economy fueled by low interest rates that eventually produces inflation because of shortages of resources and workers. The Fed is the only major central bank to have such a conflicting mandate.

Jerome Powell, the current Fed chair, is the latest to struggle with the dual mandate. Unemployment is at a 40-year low, and stock prices are among the most expensive of the past hundred years. Powell has continued the cautious attempts begun by Janet Yellen two years ago to gradually “tighten” Fed policy after eight years of unprecedented stimulus in the wake of the financial crisis. But each time the Fed has tried to move ahead with its plan, investors have been spooked, which makes the situation even more fragile. A tough spot indeed.

EDUCATION TO EMPOWER INVESTORS

Clean Yield helps clients become knowledgeable about their assets and confident as investors. One way we do this is through our “Night School” articles, which take complex investment topics and put them in lay terms. Values-based value investing is the foundation of our investment approach.

VALUES-BASED VS. VALUE INVESTING

We have long practiced *values*-based investing. This means aligning our clients’ money with their values: investing in companies that offer socially beneficial products or services, have ethical business practices, emphasize diversity at senior levels, treat their employees and communities well, and minimize their environmental impact.

We also practice *value* investing, focusing on whether stocks are undervalued or overvalued. Our favorite valuation measure is the market value of a stock versus how much cash its business generates in excess of what it needs to sustain itself (“free cash flow”). This can be used to pay dividends, expand operations, reduce debt, make acquisitions, or repurchase shares. We consider a company’s stock price relative to its earnings, dividends, book value, and revenues.

The essence of value investing is buying cheap stocks, which usually means those that are unpopular or overlooked. The “growth” approach to investing, choosing companies that have grown faster than average and that have seemingly superior prospects, is popular. Who wouldn’t want to invest in fast-growing companies that

have exciting concepts? But these stocks tend to be more expensive due to the high expectations embedded in their prices. It is common for such companies to fail to meet those high expectations due to new competition, management stumbles, or other unforeseeable reasons. When they disappoint investors, their stock prices plunge. As a result, growth investing has had significantly inferior long-term returns when compared to value investing.

The discipline and patience of value investing can make an investor look foolish at first, whether buying before a stock price bottoms or selling before the top. It’s nearly impossible to hit either one and can feel a bit embarrassing in the short run. Discipline also means not rushing to buy unless there are attractive values. When good values are unavailable, we hold interest-earning cash in the meantime. That can look bad in the short run if the stock market is rising, but it pays off in the long run. As Warren Buffett has said, “Holding cash might be uncomfortable, but not as uncomfortable as doing something stupid.” We at Clean Yield try very hard not to do something stupid.



FOCUSED GIVING FOR MAXIMUM IMPACT

HUNGER FREE VERMONT

Hunger Free Vermont's (HFVT) mission is to end the injustice of hunger and malnutrition for Vermonters. HFVT believes that everyone has the right to food to sustain an active and healthy life.

Clean Yield donates 1% of revenue each year. Recently, we have tried to be more targeted with our philanthropy, with the goal of moving the needle on an issue: food insecurity—an issue that relates to our investments in local food systems and our concern for social justice.

FEEDING ALL THE KIDS

Vermont has a childhood hunger problem. Free and reduced lunch programs are falling short. In some cases, children who qualify for these programs aren't taking advantage of them because of the stigma associated with them, or families are unwilling or unable to opt in. There are also children who have insufficient access to food but do not meet the criteria to participate in current food programs—often called “hidden hunger.”

While meeting with a range of stakeholders in the food system—food banks, gleaning operations, members of the farm-to-table network—we were introduced to the idea of universal school meals. Universal school meals refer to programs that feed every child breakfast and lunch at school, regardless of need. It promotes equality in schools (and eliminates segregation in the cafeteria) and positions food as an integral part of learning. In the same way that every child gets a text book to learn math, every child is fed to fuel their bodies and minds.

We were struck by the benefits of universal school meals, which have been linked to improved test scores, reduced sick days, decreased bullying incidents, and increased student and parent engagement. They also contribute to a strong local food system by providing more funding for local food purchasing and fostering deeper connection between schools, communities, and local farms. According to the U.N. World Food Program, providing meals through schools lifts families out of poverty, ends the “hunger cycle,” and helps close the gender gap.

And so our philanthropic campaign became clear. Clean Yield has partnered with Hunger Free Vermont to make Vermont the first state in the U.S. to feed all kids at school. We have funded the first stage of a multi-year policy initiative to create a statewide universal school meals model. While we are starting locally, the hope is that, if successful, Vermont will set the model for other states to follow.

OUR FOOTPRINT

As one of the first companies to incorporate as a Vermont Benefit Corp, we take seriously our commitment to lessen our environmental impacts and to contribute meaningfully to our communities and the well-being of our employees. We are devoted to being a business for good!

OWNING OUR IMPACT

Our biggest environmental impacts are our electricity usage, employee commuting, and business travel. To reduce these impacts, we have switched to LEDs and passive solar lighting where possible, installed programmable thermostats, and reduced commuting and travel by encouraging employees to telework and use video conference. We also purchase our electricity through Green Mountain Power’s CowPower program and offset our GHGs with NativeEnergy.

We offer a strong health and benefits package, which earned us the honor of “Best for Workers” from B Corp for several years. In an industry where the pay multiple between CEOs and median workers can top 150 to one, we’re proud that the ratio of our highest-paid full-time salary to our lowest-paid is four to one.

We volunteer our time and expertise and support local organizations with philanthropic capital. Each employee is given \$2,000 to donate to the charity of their choice. The firm contributes 1% of revenue to charitable organizations annually.

We give preference to goods and services from local and independent businesses, defined as those within the borders of Vermont and New Hampshire.

We seek to increase the racial and ethnic diversity of our team, our supplier base, and within our investments. Our company is two-thirds women-owned.

We look for new ways to be better in all aspects of our business. Seeing improvements in our B Corp Impact Assessment is one way we gauge our performance across our social and environmental impacts.

B CORP IMPACT ASSESSMENT			
Summary	2018 Clean Yield Score	Median Score*	Change vs. 2016
Governance	20.9	6	31%
Workers	35.7	18	5%
Community	30.2	17	-6%
Environment	13.8	7	53%
Customers	48.8	N/A	0%
Overall B Score	149.4	55	7%

**Of all businesses that have completed the B Impact Assessment*

Thank You

The Clean Yield team thanks you for taking the time to read about our work. We know that our clients' trust is what allows us to do everything you've read about. Not a week goes by at Clean Yield without a team member commenting on what a wonderful, committed client base we have and how grateful we are to do this work on their behalf. We hope that this publication has given you more insight into what we've been up to and how we think about resilience within our investments and our communities. As always, we welcome your thoughts and questions on both this publication format and the stories covered within. We also urge you to visit our website for more regular updates at cleanyield.com/news.





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