



Sustainability Workbook

A Collaborative Guide for Financial Planners and Clients

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Please consider an investment's objectives, risks, charges, and expenses carefully before investing. To obtain this and other important information about the Saturna Sustainable and Amana Mutual Funds in a current prospectus or summary prospectus, please visit www.saturna.com or call toll free 1-800-728-8762. Please read the prospectus or summary prospectus carefully before investing.

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INTRODUCTION

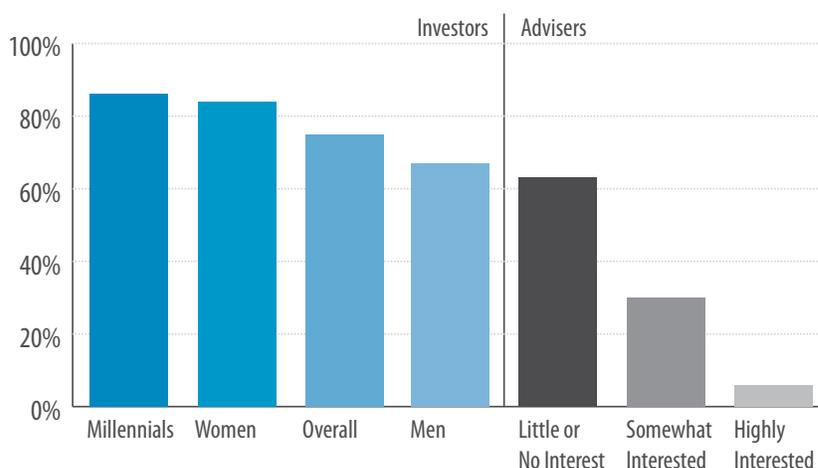
“Sustainable” investing covers a broad spectrum of investment opportunities – from consideration of environmental, social, and governance risks during fundamental analysis, to highly focused impact investing strategies. This breadth, along with the rapid increase in ESG, sustainable, and socially responsible investment products, has created more questions than clarity for some, prompting a few declarations that ESG and sustainable strategies are simply a passing fad to ignore.

Saturna Capital believes sustainability is here to stay and is worth your attention: institutional and private clients express interest with increasing frequency, and assets aligned with sustainable or responsible investing criteria totaled \$8.7 trillion in 2016.¹ Seventy-five percent of investors report an interest in sustainable investing, and 69% of investors felt they would have a stronger relationship with an adviser who could help them invest according to their personal values.² Morningstar codified the uptick in sustainable demand by releasing its Morningstar Sustainability Ratings in 2016, in order to better serve those investors seeking more responsible investment choices.

Despite the clear and growing client demand for sustainable investment strategies, and the ballooning number of asset managers who realize these strategies must be part of their menu, financial advisers haven't been as quick to embrace sustainable solutions.

This workbook aims to bridge that gap by integrating values-based, socially responsible investing into standard financial planning. Values-based and sustainable investment strategies provide an avenue to diversify your practice, attract new clients, and build greater client loyalty. Initiating discussions with clients about the values and impact they hope to see in their portfolios gives you an opportunity to connect beyond the traditional model focusing solely on financial targets and asset allocation. The enclosed exercises can help you pinpoint your clients' objectives and reveal the ways their values can be integrated throughout their entire financial plan.

Gauging Interest: Investors say they are interested in sustainable investing at a higher rate than advisers.



Sources: Morgan Stanley, Cerulli and Associates

A BRIEF HISTORY OF SUSTAINABLE INVESTING

Modern sustainable investing has its roots in the apartheid divestment campaign of the 1980s, but traces its history back even farther – nearly two hundred and fifty years – to the American colonial era when Methodists and Quakers firmly opposed the slave trade.

Faith-based mutual funds have screened against controversial investments such as handguns and tobacco for decades. What was originally known as socially responsible investing has evolved to not just exclude the bad, but to actively seek out the good. Today, the tremendous growth of environmental, social, and governance reporting and availability of data makes it easier than ever for investors to build portfolios that align with their values and beliefs. No longer a niche market and not just a passing fad, ESG and sustainable criteria provide the most comprehensive approach to due diligence in today’s financial markets.

Methodists “firmly opposed” the slave trade; employed negative screens for alcohol, tobacco, and gaming

Pioneer Fund screened “sin” stocks (negative screening)



The Anti-Apartheid movement and Bhopal, Chernobyl, Exxon Valdez catastrophes galvanize institutional investors and research firms to begin collecting data and reporting on environmental concerns

1989: SRI in the Rockies

1990: MSCI KLD 400 Social Index

1997: GRI (Global Reporting Initiative)

1700s

1758

Quakers shunned the slave trade and war profiteering



1928

1960s

Dawn of “shareholder activism”

1970s

First mutual fund companies engaging in SRI strategies founded

1980s

1984

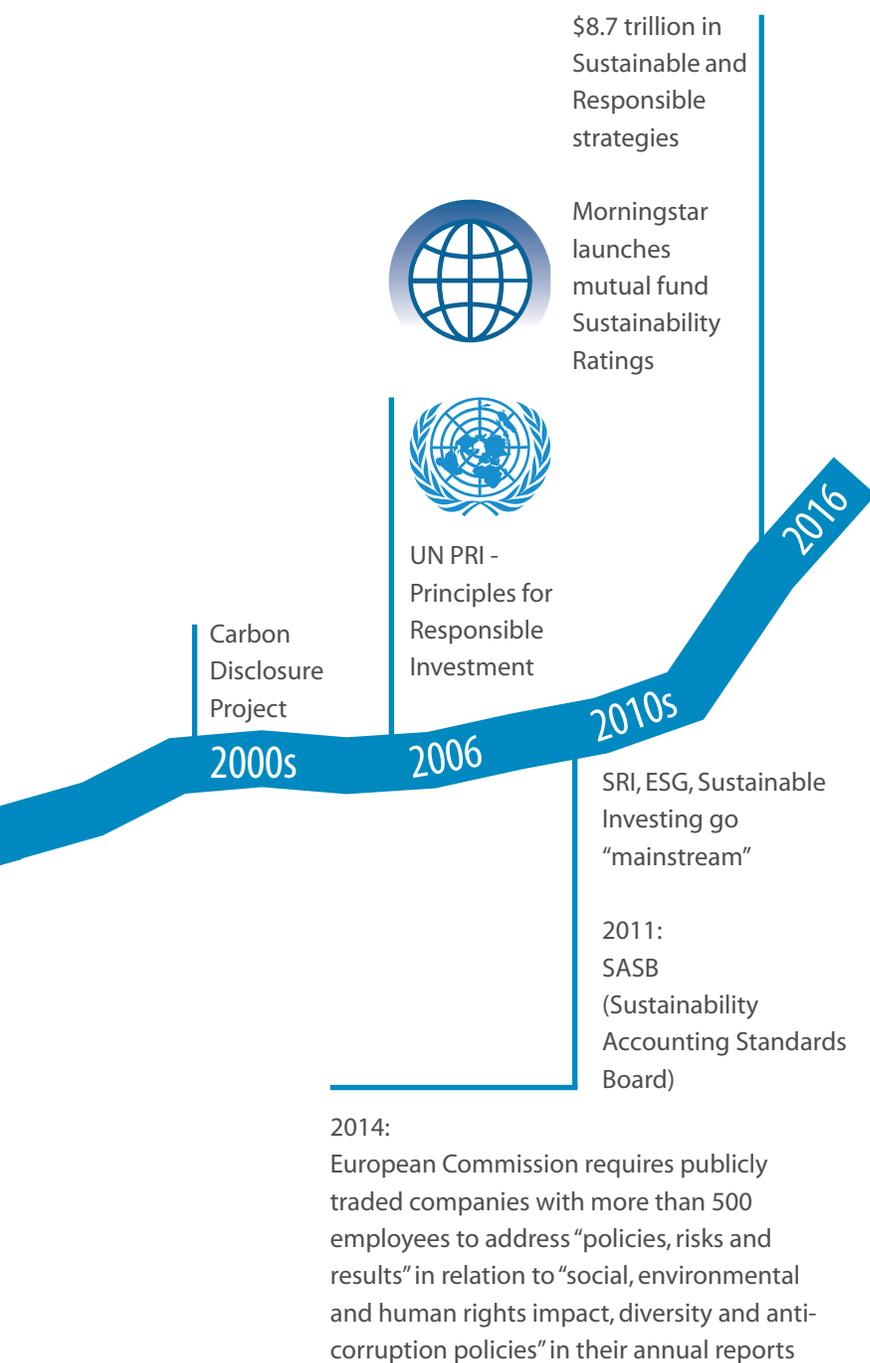
US SIF (The Forum for Sustainable and Responsible Investment)

1989

Saturna Capital founded



1990s



SATURNA'S APPROACH

Saturna Capital has been dedicated to values-based and sustainable investing for nearly thirty years. With a focus on sustainable financial management and emphasis on long-term profitability, Saturna takes a holistic and future-oriented approach to each of its funds.

Saturna views investing as a business partnership and seeks high-caliber performers who operate capably, with integrity, and with a view toward the long-term. The Amana and Saturna Sustainable Funds carefully consider a variety of environmental, social, and governance criteria, and seek to invest in issuers that demonstrate other sustainable characteristics such as management strength, risk consciousness, low debt, and strong balance sheets. Our investment team actively seeks issuers that are leaders in ESG risk management and that provide solutions for a new economy that must address resource efficiency; these issuers have the potential to form an advantage relative to their peers in a competitive and evolving market.

As an asset manager, Saturna prioritizes the education and empowerment of its investors. As an employer, Saturna is committed to worker ownership and employee wellness. As a community leader, Saturna places a strong emphasis on philanthropic ventures aimed to promote the arts, education, and the environment.

Aside from its thirteen mutual funds, Saturna is proud to offer investors a variety of individual account options such as IRAs, ESAs, and HSAs.

Sources: US SIF Foundation; SRI Conference on Sustainable, Responsible, Impact Investing; Saturna Capital

INVESTMENT AND SUSTAINABILITY QUESTIONNAIRE

Along with traditional financial planning considerations, this brief, introductory questionnaire is designed to initiate a conversation about values-based and sustainability-themed topics. The accompanying Sustainability Smile provides a framework to help you explore the spectrum of sustainable investing options and identify the right vehicles to fill customized strategies.

Are there specific companies or industries you admire?
If so, why?

.....
.....
.....
.....

Are there specific securities or investments that you absolutely do not want to own?

.....
.....

Do you have specific issues you'd like to address through your investment choices (e.g., fossil fuel divestment, human rights issues, or animal cruelty)?

.....
.....

Do you have specific issues you would like to address as part of your legacy (e.g., environmental, community, or faith-based causes)?

.....
.....

Do you anticipate making any lifestyle changes in the coming year? If so, please describe:

.....
.....

Have you made any lifestyle changes within the past year to support specific ethics-based, philanthropic, social, or environmental initiatives (e.g., committing to volunteer work, boycotting certain products, or adding solar panels to your home or office)?

.....
.....

What are your primary objectives for including socially responsible/sustainable investments in your portfolio(s):

- a) Support faith-based principles
- b) Support progressive social initiatives
- c) Support environmental concerns and/or conservation efforts
- d) Support sustainability in a general way
- e) Support specific philanthropic interests

THE SUSTAINABILITY SMILE

The Sustainability Smile is a visual tool designed to help you discuss sustainable investing with your existing and prospective clients. Because “sustainable investing” will be interpreted differently from client to client, we don’t recommend initiating a conversation with your clients by asking, “Do you want sustainable funds?” Very rarely can a client articulate their values and preferences sufficiently enough to design investment portfolios around them, and very often, we find that clients are unaware that their preferences fall along the socially responsible spectrum.

Please note that the positions of the differing strategies and general shape of the smile do not imply any specific investment outcome or predict any particular rate of return.



Traditional Finance

Traditional finance reflects current mainstream investment practices where no considerations regarding material ESG factors, negative screening, or positive screening take place. Investors in this camp focus solely on maximizing financial gain with little or no interest in broad stakeholder interests.

Integrated Finance

Integrated finance can be best viewed as an evolutionary development of traditional finance. It combines a core emphasis on financial results with consideration of material ESG factors that may potentially impact financial performance or competitive advantage.

Ethical / Advocacy

Ethical investing, sometimes referred to as faith-based investing, seeks to build portfolios that reflect the value set of an investor’s religious denomination. Typically, such engagements exclude or avoid ownership in specific industries, such as alcohol, tobacco, or gambling. These engagements tend to be straightforward and distinct from integrated investing with primary strategies that employ negative screens.

Advocacy investing involves shareholder engagement through the ownership of a company’s stock and active participation in shareholder proxies aimed at bringing about specific, measured change. Advocacy may

encompass any number of possible issues including governance-related, environmental, and social change.

Thematic / Impact Investing

Thematic investing tends to reflect sector-specific industries, such as clean energy, while impact investing tends to allocate capital toward enterprises that can achieve measured results among the three Ps: people, planet, and profit. Green bonds, for example, would qualify as being more thematic since the debt issuers’ proceeds are allocated toward climate change mitigation projects. These can include funding of energy efficiencies, including LEED certified¹ buildings, or clean energy.

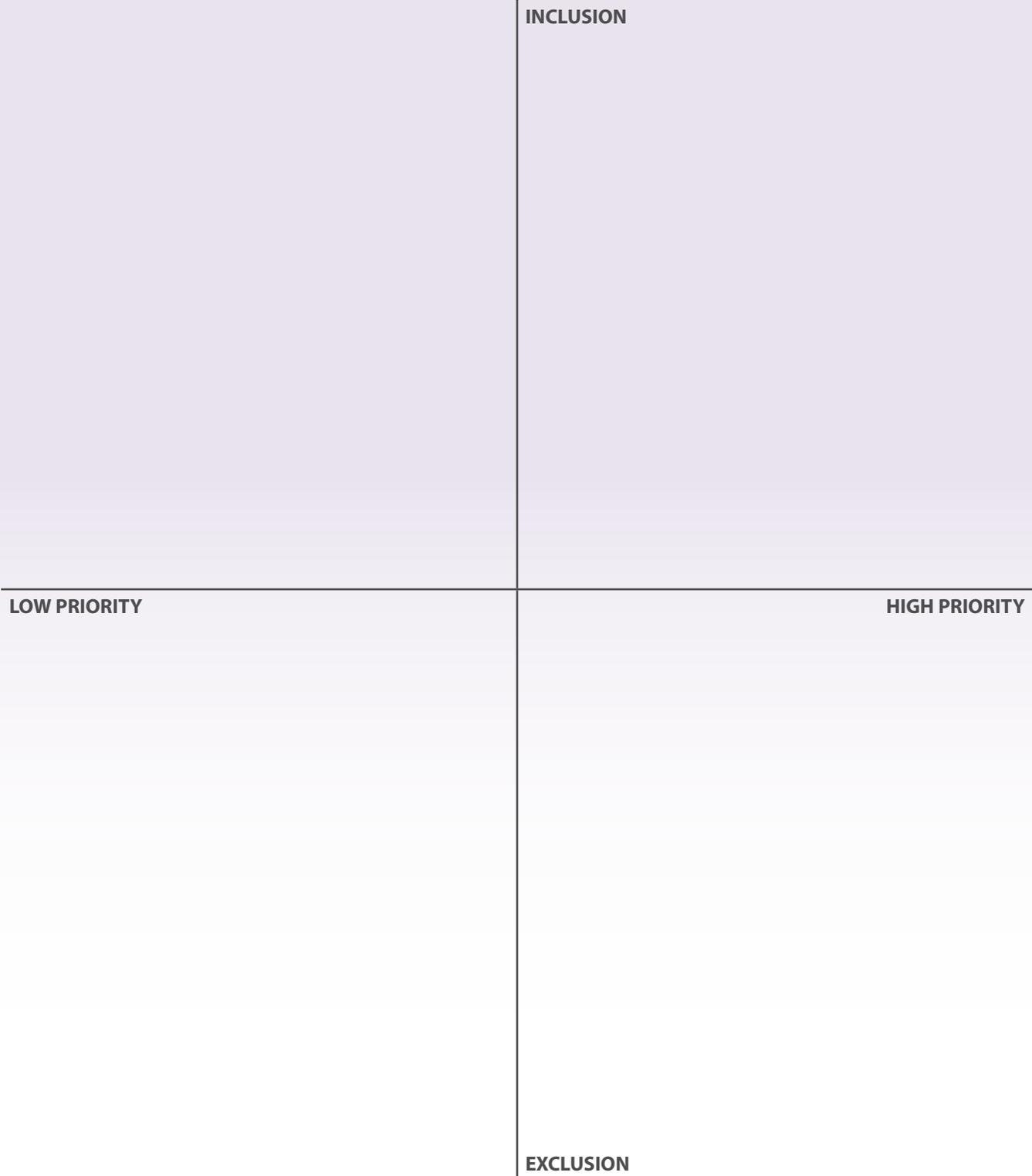
Impact investing is a category in itself and not bound by any specific theme. It aims to generate competitive, risk-adjusted returns based on the underlying characteristics of its asset class, whether land, real estate, debt, or equity, while demonstrating specific, measurable results with regard to a social and/or environmental agenda.

Philanthropic

Philanthropic investors fall on the opposite end of the spectrum from traditional finance. Philanthropists focus entirely on maximizing the impact of their value sets with little, if any, regard for investment returns. This group aims to leverage their investments to achieve charitable results or to structure their investments to create financial distributions that align with their value sets.

VALUES MATRIX

Once you've determined your client's interest in sustainable, values-based, faith-based, ESG, or other socially responsible investment options, you can use the Values Matrix and accompanying Discussion Topics to determine your client's priorities and develop a tailored approach.



DISCUSSION TOPICS

The list below contains some examples of topics that may come up in a conversation and is by no means exhaustive.

SOCIAL

- Consumer protection advocacy
- Alcohol or tobacco products
- Private prisons and/or prison labor
- Gambling (casinos, gaming products)
- Predatory, usurious, or pay day lending
- Adult entertainment (exploitative media, pornography)
- Weapons and ammunition manufacturers
- Pharmaceutical companies
- Religious life ethics violations
- Employee relations and/or benefits (including the support of unions/unionization)
- Support for LGBTQIA rights
- Fair Trade supply chains

ENVIRONMENTAL

- All renewable energy research and/or products
- Carbon emissions / fossil fuels
- Pollution remediation/prevention
- Sustainable food/agriculture (including factory farming and the meat industry)
- GMO patents and/or products
- Animal testing
- Deforestation
- Palm oil producers

GOVERNANCE

- Board, management, and workforce diversity
- Sustainability disclosure/integrated reporting
- Sustainability goals/vision
- Profit sharing/charitable giving
- B corporations
- Income equality issues (including CEO-to-worker pay ratios)
- Gender pay equity

Others?



VALUES MATRIX: SAMPLE DIALOGUE FOR APPLICATION

Adviser: Sarah, it's important that we are not only meet your long-term financial and investment goals but also ensure that we consider your values and interests. Can you tell me if there are any investments you would find disconcerting to own?

Sarah: I appreciate you asking – no one has asked me this type of question before, and it's refreshing.

Adviser: We all have ideas about industries or companies that we feel could be doing better. These are your investments, and I think having a say is important.

Sarah: I would be disappointed to find that I own any tobacco companies.

Adviser: That's a common objection, for obvious reasons, and one that we can easily accommodate.

The Adviser has learned that the client feels strongly about avoiding tobacco companies; the Adviser can add tobacco as a high priority in the exclusion quadrant.



Adviser: Sarah, I also noticed you recently installed solar panels at your primary residence. What was the motivation behind that addition? How do you feel about issues such as animal testing?

Sarah: Well, I've lately become more concerned about our dependence on fossil fuels and the effect of carbon emissions on the climate. I was able to take advantage of some tax incentives to help pay for the solar panels.

Adviser: In that case, would you be interested in seeking investments that specifically support or promote renewable energy?

Sarah: Definitely.

Adviser: Great – I'm confident we can tailor your portfolios in a way that will support that objective. Now, I should remind you that some alternative energy projects are considered higher risk than, say, a blue-chip consumer company. I will be sure to incorporate them in line with your overall asset allocation. Does that make sense?

Sarah: It does, but I don't want to take on a lot of risk.

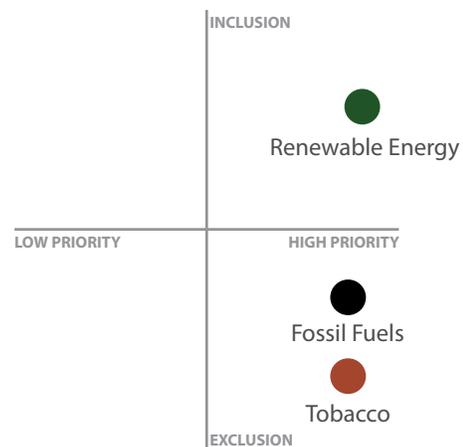
Adviser: You mentioned having a concern about our dependence on fossil fuels and carbon emissions. Is this an area you would like to take into consideration for your portfolio?

Sarah: Can we do that?

Adviser: Yes, we can look into what are called fossil-free portfolios or low-carbon portfolios. These provide a means of avoiding companies that exploit carbon resources, while allocating your investments among companies that focus on practices to mitigate carbon emissions.

Sarah: I have heard about this but wasn't entirely sure what it all means. I would prefer a low-carbon portfolio.

The Adviser can now add Renewable Energy as a high priority in the Inclusion quadrant. The Adviser can also make a note to research low-carbon portfolios for Sarah and place fossil fuels in the high priority exclusion quadrant.



Adviser: OK, great. I know you are involved with your church and your faith is important to you. Some of my clients have expressed a preference for me to make every reasonable attempt to take into consideration what we'll call "religious life ethics" - for example, stem cell research. How do you feel about this?

Sarah: That’s an interesting question. Because I had a career in nursing, I’ve seen lives dramatically improved with science. I understand how some members of my church may feel differently, but I don’t have a strong opinion. It’s more of a case-by-case question. That is, if something egregious is going on, I would prefer to avoid being associated with it.

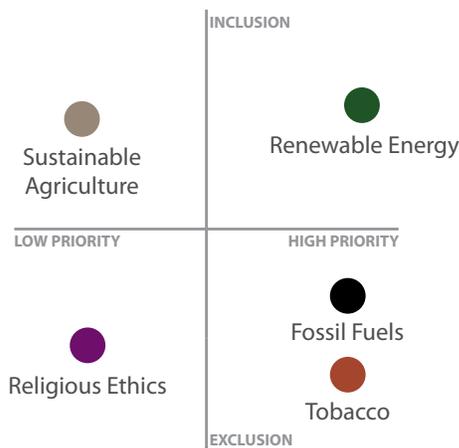
Adviser: OK. Thank you for clarifying this personal matter for me – I wanted to ask simply so that I can better understand your views and values. I have one final thought – you and I tend to bump into each other at the farmers’ market.

Sarah: Yes, I do love to cook.

Adviser: Should we consider companies for your portfolio that are focused on health and sustainable agriculture?

Sarah: Well, I don’t think I am going to change people’s preference for fast food. No, I don’t have any strong feelings or views on this. To each their own.

The Adviser can mark Religious Ethics as a somewhat low priority in the exclusion quadrant, and Sustainable Agriculture as a somewhat low priority in the inclusion quadrant.



Adviser: We can revisit these issues and industry practices over time, and we may find that we want to place greater or lesser emphasis on certain issues as your preferences change.

Sarah: Sounds great.

INVESTMENT ACTION PLAN

In this exercise, explore success criteria and engagement guidelines with clients. A positive return is certainly one criterion, but what are some others?

Investment Style (Traditional, Integrated, Ethical/Advocacy, Thematic/Impact, Philanthropic):

.....

Investment Themes (from Values Matrix):

High Priority to Exclude:

1)

2)

3)

Low Priority to Exclude:

.....

High Priority to Include:

1)

2)

3)

Low Priority to Include:

.....

These investments will feel successful if:

1)

2)

3)

4)

I would consider withdrawing and going back to a traditional financial model if:

1)

2)

3)

4)

I want my adviser to notify me immediately if:

1)

2)

The best way to stay apprised of my investments' value and impact is by measuring:

1)

2)

3)

4)

Further Resources

Download these and other resources from Saturna.com:

White Paper: Sustainability Series

Sustainable Investing: What You Need To Know

What does it mean when an investment product adopts the sustainability label? Dive into the history and terminology of sustainable investing.

Are Your Investments at Risk of Becoming Stranded Assets?

Saturna examines factors and forces driving creative destruction in the coal industry and beyond.

ESG Tilts

Integrating ESG considerations in active fixed-income strategies can help uncover risks left in the shadows by traditional bond rating methodologies.

On The Same Side, But Not The Same Page

Fixed income and equity investors might share the same side of a company's balance sheet, but they are not always on the same page when defending their interests.

White Paper: Practice Management

The Sustainability Smile

Take a deeper dive into our innovative client conversation tool, The Sustainability Smile.

Adding Sustainability: Having The Conversation

Helping clients initiate a conversation about their values presents an opportunity to establish relationships that may form greater client loyalty and higher client satisfaction.

Footnotes:

¹ US SIF Report on US Sustainable, Responsible, and Impact Investing Trend, The Forum for Sustainable and Responsible Investment, 2016.

² TIAA Global Asset Management, Second Annual Practice Management Study, 2016.

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Investing involves risk, including possible loss of principal. Generally, an investment that offers a higher potential return will have a higher risk of loss. Stock prices fluctuate, sometimes quickly and significantly, for a broad range of reasons that may affect individual companies, industries, or sectors. When interest rates rise, bond prices fall. When interest rates fall, bond prices go up. A bond fund's price will typically follow the same pattern. Investments in high-yield securities can be speculative in nature. High-yield bonds may have low or no ratings, and may be considered "junk bonds." Investing in foreign securities involves risks not typically associated directly with investing in US securities. These risks include currency and market fluctuations, and political or social instability. The risks of foreign investing are generally magnified in the smaller and more volatile securities markets of the developing world.

The Saturna Sustainable Funds limit the securities they purchase to those consistent with sustainable principles. This limits opportunities and may affect performance.

The Amana Mutual Funds limit the securities they purchase to those consistent with Islamic principles. This limits opportunities and may affect performance.



About Saturna

Saturna Capital, based in Bellingham, Washington State, has been dedicated to values-based investing for more than 25 years, focusing on the importance of sustainable financial management. Since 1989, Saturna has managed the Amana Mutual Funds, which invest according to faith-based values.

As an asset manager, Saturna Capital prioritizes the education and empowerment of its investors. As an employer, we are committed to worker ownership and employee wellness. As a community leader, Saturna promotes philanthropy through donations directed by employees as well as through corporate giving specifically aimed to promote the arts, education, and the environment.

*On the cover: Mt. Shuksan and Heather Meadows in North Cascades National Park.
Photo by Scott Klimo.*



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