

Quarterly Booklet

SPRING 2021

"Around the world, climate change is an existential threat - but if we harness the opportunities inherent in addressing climate change, we can reap enormous economic benefits."

- **Ban Ki-moon,**

Former Secretary General of the United Nations



Spring 2021

ONE DAY
IN JULY

Issue XV

A Note from our Founder

Around the time Led Zeppelin got traction, people began to discuss ESG (“Environmental, Social, Governance” or “sustainable”) investing. It had a softer start than a rock band, beginning as a niche field in the 1970’s. Today, it’s not a trend; it’s here to stay as a force for good. Good for investor returns, good for people, and good for the planet. ESG investing considers a wide array of issues, from climate risks and clean energy to human rights, business ethics, and cybersecurity. At One Day In July, our sustainable investing focuses on the environment.

We offer environmental investing as an optional service for clients. Our same fiduciary principles apply.

Dan Cunningham

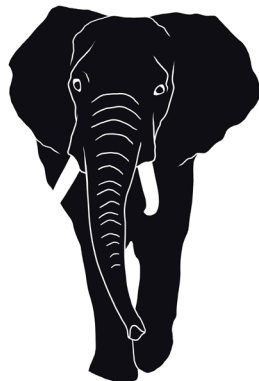


At One Day In July, we have been waiting for this moment.

Historically, the size, price, or newness of ESG funds concerned us. The head of Morningstar's sustainable investing research, for example, highlighted that in 2013 even the least expensive sustainable funds charged investors roughly 0.50% or more on their assets;¹ three years later, the only two diversified ESG exchange-traded funds (ETFs) were still charging that amount.²

Today, the breadth of available environmental fund options has grown and many offerings are now both large enough and cost-effective enough to satisfy our criteria.

If this area interests you, please contact us. Action today matters more than action five years from now.



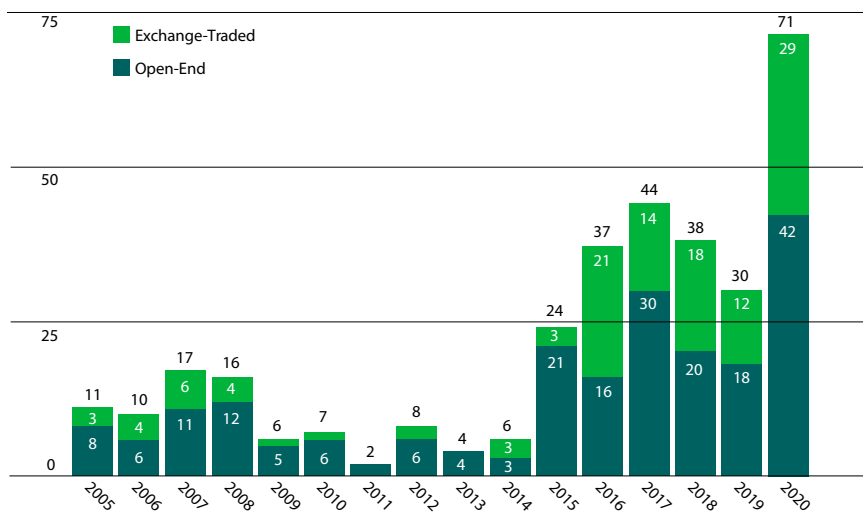
1: www.cnn.com/2020/01/14/esg-funds-see-record-inflows-in-2019.html

2: www.morningstar.com/articles/946453/3-myths-about-sustainable-funds

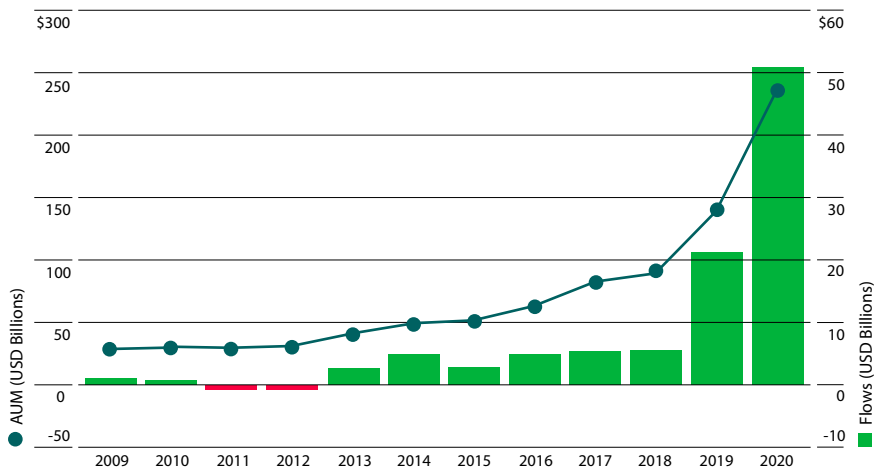
2020 was a banner year for sustainable investing.

Morningstar produces an annual “Sustainable Funds U.S. Landscape Report” to shed light on the current market for ETFs and mutual funds that consider environmental, social and/or corporate governance factors in their investments. The latest report shows that more than 70 new sustainable funds were launched in 2020 and that sustainable strategies attracted over \$50 billion in new investment dollars. Both broke prior records. The inflows more than doubled the previous annual high and represented about one of every four dollars invested in U.S. funds overall during the year. We were happy to see that passive ETFs, our preferred investment vehicle, led the charge in terms of inflows.

Sustainable Fund Launches: A Multiyear Growth Trend



Sustainable Funds Annual Flows and Assets



Sustainable funds didn't just get bigger. They also performed better than their peers, on average. 75% of sustainable stock funds finished in the top half of their Morningstar peer group in 2020. For the subset of stock funds that have been around longer, the track record over the trailing 3 and 5-year periods has been similarly strong. Remember, the 2020 outperformance does not mean they will do so every year.

Source: "Sustainable Funds U.S. Landscape Report," Morningstar Manager Research, February 10, 2021.
 Graphs: Morningstar Direct. Data as of 12/31/2020.

Important Considerations for ESG Investors

The definition of ESG, or sustainable, investments can be subjective and varies across providers, which can lead to material differences across funds. For example, one fund's definition of undesirable labor practices may differ from another's.

A related conundrum is how to consider environmental, social, and governance criteria while still building a diversified portfolio. While managers may be able to achieve some improvement in all three of those areas relative to a broad market index, the degree of improvement may feel underwhelming to an ESG investor who is focused on a particular area such as climate change. By seeking to satisfy so many disparate ESG criteria, managers may achieve little across all of them.

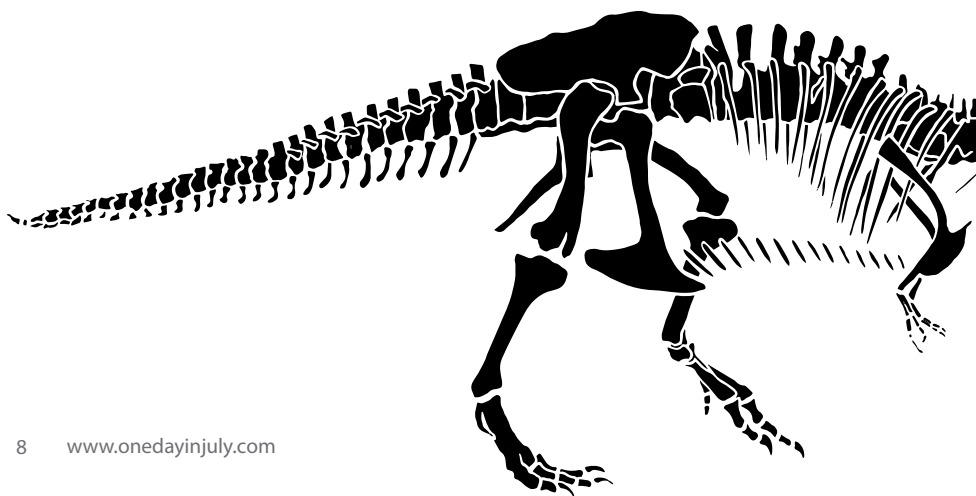
An ESG label should not be taken at face value as an indication that certain types of investments are excluded. Investors who want to ensure that their capital is being allocated toward the issues they care about most should understand which funds provide that alignment.

These issues drive One Day In July's decision to emphasize environmental criteria. Carbon intensity and fossil fuel exposure are more objectively measurable and less open to individual interpretation. By narrowing the scope, we seek to achieve excellence in the environmental area rather than relative mediocrity across many planes.



Our Environmental Metrics

At One Day In July, we focus on two core metrics, or screens, when deciding what investments fit into our environmental investing portfolios: fossil fuel reserves and carbon intensity. We supplement our traditional criteria of cost, diversification, and liquidity with an analysis of a fund's exposure to companies that own fossil fuel reserves or are heavy carbon emitters. We seek to utilize funds that have either no exposure to these companies or much smaller exposure relative to a traditional index fund.



Fossil Fuel Reserves

In a sense, we're all burning dinosaurs.

Fossil fuels are non-renewable energy sources formed over hundreds of millions of years as prehistoric plants and animals decayed under layers of sand, clay, and rock. The resulting fuel - coal, oil, or natural gas - is determined by the type of organic matter, the amount of pressure exerted over time, and at what temperature.

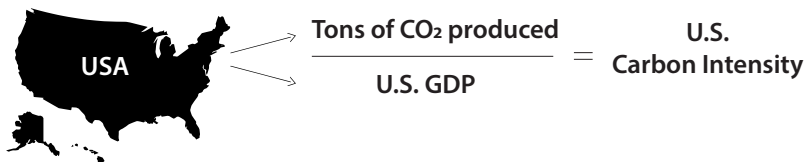
Reserves are areas where the existence of fossil fuels is "proven, provable, or possible" and where their extraction from the ground is technologically and economically feasible. Given the environmental imperative, One Day In July will consider holdings of fossil fuel reserves as one screen in its evaluation of companies for our environmental investing solutions.



Source: ourworldindata.org/fossil-fuels#reserves-vs-resources-when-does-a-resource-become-a-reserve.com

Carbon Intensity

Carbon intensity is a way of measuring the amount (in tons) of CO₂ emissions within the context of economic activity. For a country, GDP serves as the unit of economic activity (tons of CO₂ emissions per million dollars of GDP). For businesses and industries, sales provide that gauge (tons of CO₂ emissions per million dollars of sales). This metric allows us to standardize how we look at companies of different sizes or in different industries.


$$\text{USA} \rightarrow \frac{\text{Tons of CO}_2 \text{ produced}}{\text{U.S. GDP}} = \text{U.S. Carbon Intensity}$$

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**"You can resist an invading
army. You cannot resist an idea
whose time has come."**

Victor Hugo

French Author (1802-1885)



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"Perfection is achieved, not when there is nothing more to
add, but when there is nothing left to take away."

- Antoine de Saint-Exupery, Airman's Odyssey

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