



**Portfolio 21 Investments, Inc.  
Form ADV Part 2A – Disclosure Brochure  
September 24, 2012**

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This brochure provides information about the qualifications and business practices of Portfolio 21 Investments, Inc. If you have any questions about the contents of this brochure, please contact us at 503•224•7828. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

You can find more information about us at the SEC's website [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov).

## Item 2 – Material Changes

This item identifies and discusses only those material changes that have occurred since the last update of our firm brochure, which was dated March 28, 2012. Since that date:

- As of July 16, 2012, the following people were appointed to the offices indicated:
  - Carsten M. Henningsen, who co-founded our firm, was appointed Board Chair. He continues to serve as a director.
  - Robert M. Baird, who co-founded our firm, was appointed Chief Compliance Officer, Secretary and Treasurer. He continues to serve as a director.
  - John H. Streur was appointed President. As of July 17, 2012, he resigned as director.
  - James T. Madden was appointed Chief Investment Officer.
- Our prior brochure disclosed that we had \$528.9 million in assets under management as of December 30, 2011. That figure has changed. As of June 30, 2012, our assets under management were \$457.7 million.
- Local Economies Income Fund, LLC, a fixed-income fund that we manage, is now closed to new investors.
- As more fully described in Item 11, we were involved in the formation and operation of Upstream 21 Corporation, an Oregon corporation ("Upstream 21"). In our last brochure, we disclosed that Mr. Henningsen served on the Board of Directors of Upstream 21, and that he owned one share of Upstream 21 stock. However, as of June 5, 2012, Mr. Henningsen resigned from the Board of Directors of Upstream 21, and his share of Upstream 21 stock was redeemed. As of the date of this brochure, the Upstream 21 shares owned by us represent approximately 14% of the outstanding stock of Upstream 21 (on a fully diluted basis).

### **Item 3 – Table of Contents**

Item 2 – Material Changes .....	2
Item 3 – Table of Contents .....	3
Item 4 – Advisory Business .....	4
Item 5 – Fees and Compensation .....	7
Item 6 – Performance-Based Fees and Side-By-Side Management.....	9
Item 7 – Types of Clients .....	9
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	10
Item 9 – Disciplinary Information.....	18
Item 10 – Other Financial Industry Activities and Affiliations.....	18
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	19
Item 12 – Brokerage Practices .....	21
Item 13 – Review of Accounts .....	22
Item 14 – Client Referrals and Other Compensation .....	23
Item 15 – Custody .....	25
Item 16 – Investment Discretion .....	25
Item 17 – Voting Client Securities .....	25
Item 18 – Financial Information.....	1

## Item 4 – Advisory Business

### The Company

#### Overview

Portfolio 21 Investments, Inc. ("we," "us" or "Portfolio 21 Investments") is an investment advisor registered with the SEC.<sup>1</sup> We were founded in 1982 and were incorporated in 1987 by Carsten Henningsen and Robert Baird, both of whom serve on our board of directors today.

We are majority owned by our employees. Carsten Henningsen is our principal owner.

#### Socially and Environmentally Responsible Investing

Socially and environmentally responsible investing, also known as ESG (environmental, social and governance) investing, impact investing or green investing, guides all of our advisory services. We describe our investment strategies in more detail in Item 8 below.

### Advisory Services

We provide investment supervisory services and manage, on a discretionary basis, investment advisory accounts for individuals, retirement funds, corporations, trusts, charitable organizations and endowments. We invest separately managed accounts in fixed-income securities and the funds that we manage. We no longer accept new separately managed accounts investing in individual stocks.

We also serve as advisor to Portfolio 21, a global equity mutual fund ("Portfolio 21 Fund"). Portfolio 21 Fund is a series in Professionally Managed Portfolios, a trust that is registered as an investment company under the Investment Company Act of 1940 (the "1940 Act").

We also are the Manager of Local Economies Income Fund, LLC ("LEIF"), a fixed-income fund exempt from registration under the 1940 Act. LEIF is now closed to new investors. In addition, we sometimes serve as subadvisor to other firms to assist in the investment of those firms' client assets.

We describe our services in further detail below in this Item 4. More information on the investment strategies we use in providing those services may be found in Item 8 below.

#### Separately Managed Fixed-Income Portfolios

Our fixed-income portfolios include mostly taxable municipal and government agency bonds. We also manage tax-exempt municipal bond portfolios.

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<sup>1</sup> Registration as an investment advisor does not imply a certain level of skill or training.

### Separately Managed Equity Portfolios

We manage some separate accounts that are invested in our original product, "SRI Equity." SRI Equity is a core portfolio of individual stocks (mostly domestic) with attractive social, environmental, governance and financial characteristics. As stated above, we no longer accept new separately managed accounts investing in equity securities, other than separate accounts investing in Portfolio 21 Fund.

### Tailored Advisory Services for Separately Managed Portfolios

We will help you develop appropriate asset allocation objectives, which will be stated in your investment policy statement. Clients with separately managed accounts may impose restrictions on our investing in particular companies or sectors, but we expect all of our clients to accept our investment model, including our focus on socially and environmentally responsible investing.

If you are invested in fixed-income securities, your tax situation is a key factor in our selection of securities for you. We also consider any geographical preferences or purpose preferences that you may have. If you are interested in placing part of your fixed-income allocation in community investments (like banks and loan funds that provide loans to build and rehabilitate affordable homes, create jobs and start businesses in poor neighborhoods), we invest in bank certificates of deposit and/or community loan fund promissory notes.

Market volatility can sometimes change asset values. When this happens, the values of your assets may become somewhat inconsistent with your desired asset allocation objectives, as stated in your investment policy statement. If we think it is appropriate, we will rebalance your portfolio to match your allocation objectives. Rebalancing your portfolio can lead to additional trading costs.

### Portfolio 21 Fund

We manage Portfolio 21 Fund as a core equity portfolio. This means we have a commitment to global industry and sector diversification. We seek companies throughout the world that excel in their sectors, rather than limiting our investment options to companies located in a particular country or region. We invest in companies of any size, but we tend to weight toward large-capitalization ("large-cap") companies because we prefer the lower volatility profile of a large-cap, diversified portfolio.

As advisor to Portfolio 21 Fund, we manage its assets in accordance with the fund's prospectus, applicable law and our own internal policies and procedures. Our goal for Portfolio 21 Fund is to achieve above-average long-term, risk-adjusted financial returns for the fund's shareholders.

Our investment philosophy for Portfolio 21 Fund is based on the following core beliefs:

- The greatest risks facing all publicly traded companies are the growing ecological challenges caused by humans consuming beyond the limits of what our natural systems can support.
- A company's understanding of sustainability principles demonstrates the qualities of innovation and leadership that create a distinct competitive advantage and build long-term value.
- The best long-term investment opportunities are found in companies using environmental frameworks to make business decisions.

We only invest Portfolio 21 Fund assets in companies that we believe are using intelligent and forward-thinking environmental strategies in their overall business planning. We evaluate companies using comprehensive financial and environmental analyses designed to identify those best equipped to manage ecological risks. The single most significant factor is the extent to which a company is translating the risks and opportunities of ecological limits into prospects for long-term profitability.

### LEIF

We are committed to developing and offering investment vehicles grounded in the belief that strong, vibrant local economies are essential for economic, social and environmental well-being. We believe that investing in local economies benefits people and the planet and provides unique diversification opportunities.

We structured LEIF to meet those goals. LEIF is a private fixed-income fund investing in debt securities that benefit local and/or regional economies of the greater Pacific Northwest (including Northern California). LEIF's investments primarily include: (a) certificates of deposit issued by community banks; (b) taxable municipal bonds; (c) tax-exempt bonds when tax efficient; (d) special-purpose publicly traded and private placement bonds; (e) preferred stock; and (f) private loans secured by commercial real estate.

**Note: LEIF is now closed to new investors.**

### Subadvisor Services

We serve as subadvisor to Pax World Management Corp. ("Pax World") in connection with certain portfolios in Pax World's family of registered, open-end mutual funds. Under this subadvisory arrangement, we have no relationship with the investors in the Pax World funds, and Pax World is responsible for all investor-related matters.

### Assets Under Management

On June 30, 2012, we had approximately \$457.7 million in assets under management. We manage all of these assets on a discretionary basis.

## Item 5 – Fees and Compensation

### Amount of Our Fees

#### General

We calculate our fees as a percentage of the assets we manage for you. For separately managed accounts invested in fixed-income securities and the funds that we manage, we charge an annual fee of 0.50% of the fixed-income assets under management. For separately managed accounts that include individual stocks, we charge an annual fee of between 1.25% and 0.80% of the assets under management. We are no longer accepting new accounts for investment in individual stocks.

We reserve the right to negotiate fees. Some clients pay more or less than others depending on certain factors such as the type and size of the account, the range of additional services provided to the client, or the total amount of assets managed for a group of related clients. Your fee is specified in your agreement with us.

#### Fees from Investments in Portfolio 21 Fund

We may recommend that you invest all or a portion of your account in Portfolio 21 Fund. If any portion of an account is invested in Portfolio 21 Fund, that portion of the account will not be subject to our management fees described above.

Investments in Portfolio 21 Fund will, however, be subject to the annual management fees that the fund pays us for serving as its advisor. Portfolio 21 Fund pays us an annual management fee of 0.95% of the fund's average daily net assets. Portfolio 21 Fund also may pay us distribution and service (12b-1) fees in an annual amount of 0.25% of the fund's average daily net assets if you own the retail share class (PORTX). If you are considering an investment in Portfolio 21 Fund, we encourage you to read the prospectus and statement of additional information for more information about fees and expenses associated with an investment in the fund.

We invest your assets in Portfolio 21 Fund only in the percentage of your assets allocated to Portfolio 21 Fund in your investment policy statement. You approve your policy statement and any changes to it. Because the fees Portfolio 21 Fund pays us may be higher than the management fee you would otherwise pay us, we may have an incentive to recommend that you invest your assets in that fund. However, we recommend that you invest in Portfolio 21 Fund only if we believe such investment is suitable for you and in your best interest.

#### Funds from Investments in LEIF

As we discussed in Item 4, LEIF is now closed to new investors. However, if any portion of your account is invested in LEIF, that portion is not subject to our management fees described above. Investments in LEIF are, however, subject to the annual management fee LEIF pays us

for serving as its Manager. LEIF pays us an annual fee of 0.50% of the fund's net asset value. We have only recommended that an investor invest in LEIF when we believed such investment was suitable and in the investor's best interest.

### **Fees from Subadvisory Services and Model Portfolio Licensing**

For services we provide as subadvisor to Pax World, we receive a fee based on the value of the assets for which we serve as subadvisor. That fee is specified in the subadvisory agreement. We also receive a fee from firms that license our model portfolio based on the value of the assets managed using the model portfolio. That fee is specified in the applicable licensing agreement.

### **Payment of Our Fees – Separately Managed Portfolios**

You pay our fees in advance. We deduct our fees directly from your account at the beginning of each quarter, unless we both agree otherwise. If your agreement begins during a quarter, we will prorate the fee you pay for the initial partial quarter, based on the number of days from the beginning of your agreement until the end of the initial quarter. If you do not have enough cash in your account to pay our fee, we may sell some of your account assets to pay the fee.

Our client agreement may be terminated on 30 days' written notice by either you or us. If your agreement terminates during a quarter, we will refund a pro rata portion of the fee you paid for that quarter, based on the number of days between the end of the 30-day notice period and the end of the quarter.

We will make quarterly fee adjustments for assets you add to or withdraw from an account during a quarter using a similar pro rata calculation.

### **Other Fees**

We generally do not use mutual funds other than Portfolio 21 Fund. We use such other mutual funds and exchange-traded funds ("ETFs") infrequently and usually in connection with tax-related transactions. If you have mutual funds or ETFs in your portfolio, you will incur fees in addition to our fees.<sup>2</sup> For example, you may incur a commission or transaction fee when the mutual fund or ETF is purchased, and you will incur an annual management fee payable to the manager of the fund, neither of which is shared with us unless we serve as advisor or subadvisor to that fund. If a fund also imposes sales charges, you may pay an initial or deferred charge. These fees and expenses are described in each fund's prospectus. When considering an investment in a mutual fund or ETF, we use a no-load, open-end fund when appropriate. We evaluate the relative annual costs as a part of our decision process.

You could invest in a mutual fund or ETF directly, without our services. In that case, you would not receive our services, which are designed, among other things, to assist you in

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<sup>2</sup> As stated in this Item 5 above, if you invest in Portfolio 21 Fund or have invested in LEIF, you will not pay us the management fee we charge on your account with us with respect to your assets invested in Portfolio 21 Fund or LEIF. For those assets, you would pay us only the management fee that the applicable fund charges.



determining which, if any, mutual funds and ETFs are most appropriate to your financial condition and objectives. Moreover, if you are a non-institutional client and use our services to invest in a mutual fund or ETF, you may be able to invest with a lower minimum investment or incur lower fees than if you invested in the mutual fund or ETF directly. Accordingly, you should review the fees charged by the mutual funds and/or the ETFs, and the fees we charge, to fully understand the total amount of fees to be paid and to evaluate the advisory services being provided.

All clients (whether or not they have mutual funds or ETFs in their portfolio) will also incur brokerage and other transaction costs, as discussed below in Item 12.

### **No Compensation from Sales of Securities**

Portfolio 21 Investments and its employees do not receive compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. Some of our employees are registered as broker-dealer representatives, as discussed more fully in Item 10 below.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

Portfolio 21 Investments and its employees do not receive "performance-based fees" (fees based on a share of capital gains on or capital appreciation of your assets).

## **Item 7 – Types of Clients**

We generally provide advice to the following types of clients:

- individuals, including their trusts, estates, individual retirement accounts and 401(k) plans
- investment companies, including mutual funds
- LEIF, a pooled investment vehicle
- corporate pension and profit sharing plans
- endowments and other charitable organizations
- other investment advisors
- corporations or other businesses

### **Minimum Account Size**

The minimum account size for all separately managed accounts is \$5 million, but we reserve the right to waive that requirement in our discretion. Assets in related accounts may be grouped to satisfy the minimum account size requirement. Minimum investments in Portfolio 21 Fund and LEIF are described in those funds' disclosure documents.

## Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

### Methods of Analysis and Investment Strategies – General

Our goal is to achieve above average long-term, risk-adjusted financial returns for our clients. This is a near-universal goal among investment managers and one for which there are multiple approaches and strategies. Our investment approach is built on two foundational elements – structural elements that govern our portfolio architecture decisions and critical factors that affect our risk/return expectations for companies in the future.

#### Critical Factors

We believe that the kind of economic growth we have become accustomed to experiencing is threatened by certain limiting factors and that the greatest risks facing businesses are those related to these limits. We use the term "*ecological limits*" to represent the many physical impediments to traditional growth that are happening now or that are on the horizon. We are referring to the capacity of our planet to provide the natural capital and services we need to maintain the global economy at its current pace, much less at accelerated rates, as well as the human response to this challenge. Oil shortages and rising prices, availability of water for consumption and irrigation, competition for valuable natural resources such as forests and farmland, rising concentrations of greenhouse gases and accompanying climate change – all of these are creating great challenges, as well as opportunities, for those who choose to learn, understand and respond creatively.

It is unclear how ecological limits will become manifest. Timing, magnitude, scope and duration of ecological change are all uncertain. Thus, the economy and each company operating within it face changes that are inevitable but highly uncertain in the way they will unfold.

Given the uncertain nature of the impacts, one response is to dismiss all but the most immediate and more probable impacts such as carbon taxes or caps, rising oil prices, and water restrictions. We have chosen a different response. We have built our company selection process around the long-term and short-term challenges of ecological limits.

We believe that companies equipped with a longer-term view will have the most attractive risk/return characteristics. The differentiator is the extent to which a company is translating the risks and opportunities of ecological limits into prospects for long-term profitability.

#### Initial Investment Process

Given the complexities of the economic and ecological forces at work and powerful interrelationships between them, we employ a systematic investment process to analyze global industries and companies while adhering to the principles of our investment philosophy.

Key to the investment process is the synthesis of traditional fundamental investment research with proprietary, ecologically oriented opportunity/risk analysis. Through this work,

involving both quantitative and qualitative assessments, we translate ecological considerations into economic costs and benefits at the industry and company level.

We seek companies throughout the world that excel in their respective industries. We invest in companies of any size but tend to weight toward large-cap stocks because we prefer the lower volatility profile of a large-cap, diversified portfolio.

Companies that exhibit the following four characteristics are particularly of interest and warrant further research and evaluation:

- *A Business Model that Addresses Ecological Limits.* The combination of rising population with rising per-capita consumption facilitated by fossil fuels has produced a global economy that is straining against the bounds of its physical capacity and experiencing the impact of resource limitations *and* climate change. The implications for business are huge, ranging from measurable changes in the costs of materials, production and distribution to the less tangible, but ultimately more critical, questions of comparative advantage, competition for markets, and consumer capacity. We look beyond environmental responsibility and beyond stewardship to issues of adaptability and flexibility. We look to the core question of whether a company is prepared to function efficiently in a resource-constrained economy.
- *Financial Acumen.* Competent financial management and the ability to generate positive returns over the long-term are reflected in various financial indicators. Positive factors include: attractive fundamental data (earnings growth rates, price/earnings ratio, debt-to-capital ratio); management track record and stability; and industry position. Negative factors include: stalled or questionable outlook for earnings; overly aggressive financial leverage; management upheaval; and significant gaps between market value and fundamentals.
- *Capable and Adaptable Management.* While difficult to assess, the quality of management is an essential element in the long-term success of a company. We study public statements and announcements, corporate activities and decisions, legal and regulatory actions connected to the company, and various surveys and other reports to gain an understanding of the focus of management, the level of integrity, and the commitment to long-term thinking.
- *The Potential to Retain and/or Build a Market Niche.* When all is said and done, a company must be able to offer goods and/or services that meet market demand, that can gain widespread acceptance, and that have endurance in a rapidly changing world.

#### Further Research, Risk Analysis and Other Issues

Our research analysts conduct in-depth research, using information provided by the company via public documents and direct interaction as well as by third party entities, including non-profits and non-governmental organizations, governmental agencies, and outside research companies, to evaluate the environmental intelligence and behavior of the companies we are considering.

Risk assessments determine the composition of our client portfolios. We select companies that meet our environmental qualification criteria. We also recognize the importance of strong social and governance practices. Egregious behavior and/or involvement in controversies is assessed and may be the basis for exclusion.

Certain issues are highly debated and pose significant threats to human health and well-being. To address these issues, we have established written policies. Our policies address biotechnology, nuclear energy and weapons. In certain sectors, animal testing is required; to ensure ethical practices are in place, we also maintain an animal testing policy.

### Investment Management Committee

Our Investment Management Committee holds periodic meetings during which we discuss the components of our clients' investment portfolios, industry trends, the general economic outlook, and appropriate strategies for meeting our clients' investment objectives.

### **Separately Managed Fixed-Income Portfolios – Additional Information**

Our primary investment strategies for fixed-income portfolios are:

- *Buy and Hold.* Assets allocated to fixed-income are generally fully invested at all times. We employ a buy-and-hold strategy with swapping to add value based on our interest rate outlook and/or the availability of a more favorable bond. A typical bond portfolio will have a 5- to 10-year weighted average maturity.
- *Investment Grade or Higher.* We invest only in "investment-grade" fixed-income securities in separately managed accounts – that means they are rated BBB and above by Standard & Poor's (the "S&P"). This rating means that the investment has a relatively low risk of default. If a security drops below BBB after it is purchased, we evaluate the security on its merits before deciding whether to continue holding it or to sell it. We invest mainly in U.S. Government Agency securities, taxable municipals and tax-free municipal bonds. We are not limited to investment-grade fixed-income investments in LEIF.
- *Benchmark.* Our benchmark for fixed-income investing is the Barclays Capital Government/Corporate/Credit Index.

### **Portfolio 21 Fund – Additional Information**

#### Initial Considerations

We have developed and employ a proprietary framework to evaluate companies' eligibility for inclusion in the portfolio of Portfolio 21 Fund. The basis for our analysis is the premise that we must examine how the company is responding to the most significant ecological risks and opportunities it faces (not necessarily those the company chooses to highlight in public communications). We consider the following:

- *Sector Outlook.* Sector analysis identifies how ecological constraints affect a specified sector's supply chain, availability of raw materials, distribution systems,

manufacturing processes, customer base and demand. The company must be aware of the resource limitations facing its sector and must have positioned its business to gain competitive advantages by implementing strategies that proactively reduce risk and optimize opportunity.

- *Business Model.* The company's business model must be forward thinking and address the ecological constraints that are increasingly limiting "business as usual." The company's model may encourage products or service, sustainable mobility, localization of inputs/suppliers, lean manufacturing, and/or the use of regional manufacturing and distribution.
- *Products/Services.* The company must understand the ecological impacts and accompanying risks associated with its products and/or services and must be taking significant steps to address these issues. Product life cycle analyses encompassing raw materials use and supplier requirements, packaging and transportation, take-back and recycling programs, and the energy efficiency of products are critical.
- *Investments.* We seek companies that are allocating meaningful amounts of financial capital to initiatives that further the company's ability to survive and thrive in the face of ecological limits. Positive indicators include significant investments in the research and development of ecologically superior products and/or technologies, or in new plants or equipment with advanced environmental performance, as well as merger, acquisition, and divestiture decisions that reflect consideration of resource availability and environmental impacts in determining the long-term success of a business.
- *Leadership.* The company's management must understand the magnitude of the ecological crisis and views environmental sustainability as a major business opportunity. Priorities include:
  - § Corporate leaders demonstrating expertise in environmental sustainability.
  - § Company activities educating employees, customers, suppliers, and competitors about sustainable business practices.
  - § Support for progressive environmental legislation and regulation.
- *Environmental Management.* The company's environmental management system must help identify and address environmental impacts and liabilities, develop action plans and procedures, and establish environmental accounting practices. Priorities include:
  - § Identification of business activities with the greatest ecological impact.
  - § Public reporting on how these impacts are being addressed, as well as continuous improvement of performance over time.
  - § Third-party certification of the environmental management system and effective employee involvement in the ongoing implementation of the company's identified priorities.

- *Resource Efficiency.* The company must be doing more with less by efficiently using and reusing resources. Priorities include:
  - § Recognition of the value of resource efficiency and waste reduction, and setting associated goals and measuring progress.
  - § Improvements in building design and operations, including actions to minimize the impacts of facilities on the local environment.
- *Environmental Risks & Liabilities.* Climate destabilization is among the greatest ecological risks we face, and the associated liabilities pose a threat to investors as well as the world. Priorities include:
  - § Strategic planning for reducing direct and indirect greenhouse gas emissions.
  - § Decreasing exposure to other environmental liabilities such as superfund sites, spills, toxic releases, and the fines and penalties associated with these liabilities.

### Investment Selection

Our goal for Portfolio 21 Fund is to achieve above-average long-term, risk-adjusted financial returns for the fund's shareholders. Our investment selection strategies for Portfolio 21 Fund are:

- *Common Stock Focus.* We generally invest only in common stock. However, may consider preferred stock, real estate investment trusts or warrants (if the warrants are embedded in a common stock or are convertible into common stock). Our investable universe consists of any company with market capitalization greater than \$1 billion that meets our environmental sustainability criteria. We will consider investing in smaller companies if their investment potential is strong and liquidity is sufficient. We seek to hold between 75 and 125 stocks at any given time.
- *Bottom-Up Approach.* Portfolio allocation is driven by a bottom-up approach with particular attention paid to competitive advantage relative to sector peers. We strive to be represented in all economic sectors for purposes of diversification and relative performance. In doing so, we actively seek to increase portfolio weighting to under-allocated sectors and consider allocating less to over-allocated sectors. This is not always achievable due to our ecological limits criteria and/or market valuation levels.
- *Individual Position Size.* Individual position size is based on the company's prospects for share price appreciation, the stability and predictability of revenue and earnings streams, and the company's market capitalization. We purchase no more than 10% of the outstanding voting securities of any class of securities of any one issuer. In addition, for the majority of fund assets, individual position size is limited to 5% of the fund's total assets.

- *Fundamentals of Each Company.* We prefer to invest in industry leaders if they meet our criteria. We do not hold positions in every sector, nor do we conduct a "best in class" analysis. Our process is based on the fundamentals of each company, not whether it is relatively "better or worse" than another company in the same industry.

### **Separately Managed SRI Equity Portfolios (no longer offered to new clients) – Additional Information**

As stated above, we no longer accept new separately managed accounts investing in our original product, SRI Equity. However, we manage SRI Equity portfolios for some of our existing clients. Our primary investment strategies for SRI Equity portfolios are:

- *United States Focus.* We look first to domestic companies, but we sometimes find that the companies that meet our particular needs are based outside the U.S. If we invest in non-U.S. companies, we buy American Depositary Receipts or stocks in foreign markets that are highly developed and regulated. We normally hold between 30 and 40 stocks, of which up to approximately 15% may be issued by non-U.S. companies. Most of the holdings are large-cap stocks, although we occasionally buy stocks with as low as \$500 million in market capitalization.
- *Industry Allocation.* Industry allocation is generally across the 10 S&P industry sectors, with weightings between 50% and 200% of the S&P weightings. We avoid a particular sector if we believe its long-term outlook is poor.
- *Cash Holdings.* Client portfolios are generally fully invested with cash limited to 10% of the portfolio over short periods. We do not attempt to time the market with cash. We do not buy or sell derivatives.
- *Long-Term Investment.* We are long-term investors. We manage risk and maintain ownership of chosen companies by trimming positions that have appreciated more than the overall portfolio. This approach tends to keep portfolio turnover low and tax efficiency high. We sell when we perceive a fundamental change in a company's business model. This change can be due to external factors, like regulatory changes, or internal events, such as non-compatible acquisitions.
- *Benchmark.* Our performance benchmark for our SRI Equity investments is the S&P 500.
- *Research Methods.* In keeping with our focus on high-quality stocks, we look for established companies with consistent records of earnings growth. In addition to our in-house expertise, our research spans independent sources, Wall Street brokerage reports, financial publications, and personal due diligence of companies. We use industry guidelines to guarantee diversification, but our analysis tends to be bottom-up (in keeping with our commitment to holding between 30 and 40 stocks). Most of our buying opportunities come when an otherwise solid stock experiences short-term volatility. If we are convinced the long-term story is unchanged, we view these kinds of price drops as opportunities.

## **LEIF (no longer open to new investors) – Additional Information**

As stated above, LEIF is now closed to new investors. However, some of our clients are currently invested in LEIF. Our primary investment strategies for LEIF are:

- *Pacific Northwest Focus.* LEIF seeks to make debt investments that benefit local and/or regional economies of the greater Pacific Northwest.
- *Types of Investments.* LEIF invests in certificates of deposit issued by community banks, taxable municipal bonds, tax-exempt bonds when tax efficient, special-purpose publicly traded and private placement bonds, preferred stock, and private loans secured by commercial real estate.
- *Diversification.* LEIF seeks diversification with respect to credit risk as well as maturity and type of investment.

## **Risks Associated with Our Methods of Analysis and Investment Strategies**

### **General**

All investments in securities include a risk of losing your principal (invested amount) and any profits that you have not realized. You should be prepared to bear that risk. As you know, stock markets and fixed-income markets fluctuate substantially over time. In addition, as recent global and domestic economic events have shown, the performance of any investment is not guaranteed.

Our judgments about the attractiveness, value and potential appreciation of a particular asset class or individual security may be incorrect, and there is no guarantee that the securities we select will perform as anticipated. The value of an individual security can be more volatile than the market as a whole or our investment approach may fail to produce the intended results. Our estimate of value may be wrong or, even if our estimate is correct, it may take a long time before the price and value converge. As a result, there is a risk of loss of the assets we manage that is out of our control. We seek to reduce your risk through diversification. Although we will do our best in managing your assets, we cannot guarantee any level of performance or that you will not experience a loss in your assets.

Our agreement with you states that we are not liable to you for:

- any loss you suffer because of any investment decision we make or other action we take or do not take in accordance with our agreement with you
- any loss you suffer because we follow your instructions
- any act or failure to act by any custodian or broker

Nevertheless, nothing in our agreement with you constitutes your waiver of any legal right under applicable federal or state securities laws or any other law whose applicability may not be waived through contract. If there is a discrepancy between the information in this brochure and your agreement with us, your agreement will control.



## Risks of Socially and Environmentally Responsible Investing

Our investing is guided by our philosophy of socially and environmentally responsible investing. There is a risk that investments that meet our environmental, social, governance and financial criteria could underperform similar investments that do not meet those criteria. Also, our criteria could cause us to dispose of, or not make, investments that subsequently perform well.

## Risks Associated with Our Primary Client Investments

Risks of Fixed-Income Securities. Even though we invest only in fixed-income securities that are investment grade or better, these securities face risks such as:

- *Interest Rate Risk.* Fixed-income securities increase or decrease in value based on changes in interest rates. If rates increase, the value of fixed-income securities generally declines. On the other hand, if rates fall, the value of the fixed-income securities generally increases.
- *Credit Risk.* Issuers and counterparties may not make interest and/or principal payments on the securities they issue or their payments may not be made when due. In addition, the credit quality of securities may be lowered if an issuer's financial condition changes. Lower credit quality may lead to greater volatility in the price of a security, and that may affect liquidity and our ability to sell the security.
- *Call Risk.* Falling interest rates may cause an issuer of fixed-income securities to redeem (call) its high-yielding fixed-income securities before their maturity date.
- *Prepayment Risk.* There is a risk that prepayments on a fixed-income security may increase if interest rates decline. Any reinvestment of prepayment proceeds at lower rates could adversely affect return.

Individual Equity Risks. The risks that our individual equity investments face are:

- *U.S. General Equity Market Risk.* The market price of a security may fluctuate, sometimes rapidly and unpredictably. These fluctuations may cause a security to be worth less than its cost when originally purchased or less than it was worth at an earlier time.
- *U.S. Large-Cap Company Risk.* Returns from large-cap stocks may trail returns from the overall stock market. Large-cap stocks tend to go through cycles of doing better, or worse, than the stock market in general.
- *Small- and Mid-Cap Company Risks.* Investments in small- and mid-cap companies may be riskier than investments in larger, more established companies. The securities of these companies may trade less frequently and in smaller volumes than securities of larger companies. In addition, small- and mid-cap companies may be more vulnerable to economic, market and industry changes. Because smaller companies may have limited product lines, markets or financial

resources, or may depend on a few key employees, they may be more susceptible to particular economic events or competitive factors than larger-capitalization companies.

- *Foreign Securities and Emerging Market Risks.* Foreign securities face risks due to political, social and economic developments abroad, as well as due to differences between U.S. and foreign currency and regulatory practices. These risks are greater in emerging markets.

## **Item 9 – Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management.

We have no legal or disciplinary events to report.<sup>3</sup>

## **Item 10 – Other Financial Industry Activities and Affiliations**

### **Portfolio 21 Fund**

We advise Portfolio 21 Fund, a no-load global mutual fund investing in companies that incorporate environmental sustainability into their business strategies.

### **Registered Broker-Dealer Representatives**

In addition to being registered as investment advisor representatives, some of our employees are registered representatives of Quasar Distributors, LLC ("Quasar"), the broker-dealer that is the distributor and underwriter of Portfolio 21 Fund. As Quasar representatives, they may discuss with members of the retail public the fund's investment objectives, strategies, risks and policies. They may also provide preapproved marketing material to those that are interested. They may not, however, recommend investment in Portfolio 21 Fund directly to members of the retail public. Instead, if a potential investor wishes to invest in the fund, Quasar representatives may either (a) provide the investor with a prospectus and application or (b) refer the investor to the Client Services Department of Portfolio 21 Fund's transfer agent.

There is an exception to the prohibition against directly recommending an investment in Portfolio 21 Fund. If you have a separately managed account with us, our advisory personnel who are also Quasar representatives may recommend, as part of our advisory services, that you invest in the fund if that investment is suitable for you.

As discussed in Item 5 above, our employees do not receive compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. However, as the adviser to Portfolio 21 Fund, we receive management

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<sup>3</sup> We note that registered advisors are required to report, in Part 1A of Form ADV, all disciplinary events regardless of whether they are material. We have no disciplinary events of any kind to report.

fees and certain distribution and service (12b-1) fees as described in Item 5 above, under the heading, "Fees from Investments in Portfolio 21 Fund."

## **LEIF**

We are the Manager of LEIF, a private investment vehicle that is now closed to new investors. LEIF makes debt investments that benefit local and/or regional economies of the greater Pacific Northwest. LEIF also provides debt capital to businesses and other entities that meet certain financial, social, environmental and governance criteria. Such debt investments may include certificates of deposit issued by community banks, taxable municipal bonds, special purpose publicly traded and private placement bonds, tax exempt municipal bonds when tax efficient, preferred stock, and private placement secured loans.

## **Investments in Portfolio 21 Fund and LEIF**

As discussed in Items 4 and 5 above, we sometimes recommend that clients invest in Portfolio 21 Fund and have, in the past, recommended that clients invest in LEIF. Both of these funds pay management fees to us. To address any potential conflicts of interest, we waive our investment advisory fees with respect to client assets invested in Portfolio 21 Fund or LEIF and receive only the management fees from the funds.

In addition, we invest your assets in Portfolio 21 Fund only in the percentage range specified in your investment policy statement. You approve your policy statement and any changes to it.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

We adopted a code of ethics that applies to all of our employees. Each of them must comply with our code of ethics as a condition to working with us. Our Chief Compliance Officer (our "CCO") administers and enforces our code of ethics.

Our code of ethics requires our employees to:

- comply with applicable federal and state securities laws
- conduct themselves with integrity and act ethically in their dealings with the public, clients and professional associates
- fulfill their duty of loyalty by acting solely in our clients' best interests
- strive to provide long-term client satisfaction
- disclose any conflict of interest
- report any violation of our compliance manual to our CCO as soon as possible

- submit reports of securities beneficially owned by them and their related persons, and submit reports of securities transactions by them and their related persons, subject to certain permitted exceptions

We prohibit our employees from investing in any initial public offerings. Our employees must receive our CCO's approval before they invest in any private placements, trade in the securities held in the portfolio of any existing client, or invest in any other stock or ETF.

Our clients or prospective clients may request a copy of our code of ethics by contacting one of our Client Services Managers at 503•224•7828 or the address specified on the cover page of this brochure.

### **Participation or Interest in Client Transactions**

#### **Upstream 21**

We were a visionary of Upstream 21's business model and assisted in preparing its initial business plan. On the date of this brochure, the Upstream 21 shares owned by us represent approximately 14% of the outstanding stock of Upstream 21 (on a fully diluted basis). All of our Upstream 21 shares are entitled to piggyback registration rights and were acquired through conversion of \$783,196 (exclusive of interest) in loans that we made to Upstream 21. We have made an additional \$755,000 in loans to Upstream 21, and those loans are payable in 2013.

Due to our relationship with Upstream 21, we will not use our discretion to invest client assets in investments related to Upstream 21. We also waive our management fee with respect to such Upstream 21 investments.

#### **Portfolio 21 Fund and LEIF**

As discussed above, we sometimes recommend that clients invest in Portfolio 21 Fund, and we have, in the past, recommended that clients invest in LEIF. See Items 4, 5, 8 and 10 above for a discussion of our relationships with Portfolio 21 Fund and LEIF and how we address potential conflicts of interest.

### **Personal Trading**

We and/or our employees may buy or sell the same securities we buy or sell for your account. As a result, there may be a conflict of interest that arises between you and us (or one of our supervised persons) in the allocation of trades. To address that potential conflict, we impose several restrictions on personal trading. We and our employees may not:

- include personal trades in block trades with clients
- trade in a manner that would be adverse or detrimental to client trades
- buy or sell a security for their accounts on the same day we place client trades in that security.

Moreover, our employees must receive our CCO's approval before they invest in any private placements, trade in the securities held in the portfolio of any existing client, or invest in any other stock or ETF.

## **Item 12 – Brokerage Practices**

### **Broker Selection**

Our management discretion includes the selection of the security, the amount to be purchased or sold, the broker or dealer to be used to effect the transaction, and the commission rate to be paid.

We choose brokers on the basis of the following factors:

- competitive commission rates
- the level of efficiency and professionalism of services
- past operating history and reputation
- execution capabilities
- access to the markets for the securities being traded
- any other factors we consider relevant

We do not enter into agreements to receive research or other products or services in connection with executing client transactions with broker-dealers (often called "soft dollar" benefits). However, certain brokers through which we execute trades may provide unsolicited proprietary research (research the broker creates) to us. This research is used for all client accounts, even though only certain clients may have paid commissions to the brokers who provided the research. This research could include a wide variety of reports, charts, publications or proprietary data on economic and political strategy, credit analysis, or stock and bond market conditions and projections.

Commission rates paid may be higher than the lowest commission rate available. Your custodian generally charges a minimum fee for each transaction in your account. Because of this minimum fee, it often is not economically feasible to select any broker other than your custodian for your equity, mutual fund and ETF transactions. See Item 14 below for a discussion of the benefits we and our clients receive from our custodial arrangements.

For our clients' accounts maintained in custody at Charles Schwab & Co., Inc., an unaffiliated broker-dealer ("Schwab"), Schwab will not charge the client separately for custody but will receive compensation from the clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. If a client's assets are held at Schwab, but we use another broker-dealer to execute a trade (such as a bond trade), Schwab will charge that client a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through the other broker-dealer. That fee will be in addition to the fee charged by the other broker-dealer. Thus, it is advantageous for clients if we cause trades for clients custodied with Schwab to be executed through Schwab

rather than another broker-dealer. In all cases, we acknowledge our duty to seek best execution of trades for client accounts.

*No Directed Brokerage.* We generally do not permit you to direct us to effect securities transactions in your account through a specific broker-dealer.

### **Trade Aggregation and Allocation**

To obtain more favorable order execution and lower per-share brokerage costs, we aggregate (combine) contemporaneous buy or sell orders for the same securities, with applicable accounts participating in the aggregated order on a pro rata basis. Occasionally, we may only partially fill an aggregated order. Under those circumstances and to the extent it makes practical sense, we allocate the order on a pro rata basis among the applicable clients.

Exceptions to the pro rata allocation of partially filled orders may occur for several reasons, such as the avoidance of odd lots or de minimis numbers of shares, or sensitivity to total transaction cost. If we cannot feasibly allocate partially filled orders on a pro rata basis, we allocate trades on an alphabetical or reverse alphabetical basis. There may be instances when partially filled orders may adversely affect the size of the position or the price you pay or receive, as compared with the size of the position or price that you would have paid or received had no aggregation occurred. We do not include employee transactions with client orders. Employee transactions must be executed at least one day after any client transaction in that security.

***Note: The aggregation and allocation policies above apply to trades in equity securities only. We buy and sell fixed-income securities through a bidding process that does not require us to aggregate or allocate the transactions. Furthermore, orders for shares of mutual funds or ETFs are generally fully filled and do not present allocation issues.***

### **Trade Errors**

When a trade error occurs either (a) the trade is cancelled with no net gain or loss to the client, or (b) if the trade has already settled, the client retains any net gain resulting from the error correction, and we compensate the client wholly for any loss resulting from the error correction.

## **Item 13 – Review of Accounts**

### **Separately Managed Accounts**

We review all separately managed client accounts monthly and whenever a special review is necessary. A special review of an account becomes necessary on the occurrence of any of the following:

- unexpected cash flows in or out of the account
- a client's instructions to review the account
- additional cash required for an investment

All account reviews, whether monthly or special, are conducted by (a) James Madden, CFA, Chief Investment Officer and (b) the investment advisor representative assigned to the account under review. Our investment advisor representatives are Carsten Henningsen and Robert Baird.

We also provide clients whose accounts we manage with detailed written reports, either quarterly or annually, as specified in the client agreement. These reports discuss economic outlook, portfolio positions, asset allocation, changes in portfolio value and investment returns. We urge you to carefully review these reports and compare the statements that you receive from your custodian to the reports that we provide. The information in our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **Portfolio 21 Fund**

We monitor the holdings of Portfolio 21 Fund daily to ensure compliance with diversification policies and to determine whether investment changes should be made. Shareholders in Portfolio 21 Fund receive prospectuses, supplements, annual reports and semi-annual reports. These reports discuss economic outlook, portfolio positions, asset allocation, changes in portfolio value and investment returns. In addition, the fund's annual report discusses market conditions and investment strategies that significantly affected the fund's performance during the previous fiscal year.

### **LEIF**

We monitor LEIF's holdings daily with respect to market activity and credit rating changes. In those reviews, we evaluate the fund's investments and determine whether investment changes should be made. We also confirm that LEIF's investments are consistent with its investment guidelines.

Within 120 days after the end of each year, LEIF delivers to its investors that year's audited financial statements, including a balance sheet, a profit and loss statement, and a statement of investors' capital. LEIF's annual financial statements are audited by an independent firm that is registered with and subject to inspection by the Public Company Accounting Oversight Board ("PCAOB"). We also send each LEIF investor a quarterly statement showing the activity in the investor's capital account during the previous quarter. In addition, we send investors quarterly update letters discussing LEIF's portfolio characteristics and the changes in portfolio positions since the previous newsletter.

## **Item 14 – Client Referrals and Other Compensation**

### **Benefits from Custodians**

Each client's assets must be held by a third-party custodian. A custodian can be a bank or brokerage firm. Absent unusual circumstances, we require our separately managed account clients to use Schwab as custodian for their accounts. That requirement is based on our evaluation of Schwab's standards of recordkeeping, trade execution, research and competitive

commissions. In addition, at least annually, we review brokerage services received to confirm that such services continue to meet our best execution obligation. We receive no compensation for requiring clients to use Schwab.

#### Benefits to Administration of Client Accounts

Schwab makes available to us products and services that benefit us and our client accounts. Some of these products and services assist us in managing and administering client accounts. These include software and other technology that:

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts)
- provide pricing information and other market data
- facilitate payment of our fees from clients accounts
- assist with back-office support, recordkeeping and client reporting

Many of these services may be used for all or a substantial number of our client accounts, including any accounts that are not maintained with Schwab. These products and services benefit us because they enable us to more quickly and accurately service our client accounts.

#### Benefits to Our Business

Schwab also makes available to us other services to help us manage and further develop our business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services when provided to us by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to us. Thus, our recommendation that clients maintain their assets in accounts with Schwab may be based in part on the benefit to us of the availability of some of these products and services, and not solely on the nature, cost or quality of custody and brokerage services Schwab provides. This may create a potential conflict of interest. In all cases, we acknowledge our duty to act in our clients' best interests.

#### Schwab's Institutional Services Program

We participate in Schwab's Institutional Services Program. As part of that program, Schwab provides us with access to its institutional trading and operations services, which are typically not available to retail investors. These services generally are available to independent investment advisors, at no charge to them so long as the advisor's clients collectively maintain a specified balance of account assets with Schwab. These services include brokerage, custody and research services, as well as access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial



investment. Schwab's trading platforms are essential to our service arrangements and capabilities, and we may not accept clients whose assets are held by another custodian.

### **No Compensation for Client Referrals**

We do not currently compensate any person for client referrals. We are obligated to disclose any such arrangements to you.

## **Item 15 – Custody**

Except as specified below in this Item 15, we do not provide custodial services to our clients. Your assets must be held by a bank, registered broker-dealer or other "qualified custodian." You will receive statements directly from your custodian at least quarterly. We urge you to carefully review the custodial statements and compare them to the reports we send you. The information in our reports may vary from your custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

As the Manager of LEIF, we are deemed to have custody of LEIF's assets. We place LEIF's cash and securities with a bank, registered broker-dealer or other "qualified custodian." We do not have physical custody of LEIF's cash or securities, except for "privately offered securities" that LEIF owns, which SEC rules allow us to hold, since LEIF's annual financial statements are audited and distributed to LEIF investors as described in Item 13 above.

## **Item 16 – Investment Discretion**

Our authority in managing your account includes the full discretionary power to purchase, sell and exchange securities and other investments, exercise all rights conferred on the holder of such assets, and reinvest all proceeds. We do not exercise our discretion to invest your assets in LEIF or Upstream 21.

## **Item 17 – Voting Client Securities**

### **Proxy Voting Policy**

We generally have authority to vote proxies on behalf of clients in separately managed accounts (with equity holdings) and on behalf of Portfolio 21 Fund.

We have adopted a written proxy voting policy setting the standards and guidelines for voting proxies. We delegate to an independent proxy-voting firm the actual voting of proxies on behalf of our clients and Portfolio 21 Fund. That firm votes all proxies in accordance with our proxy voting policy.

Under our proxy voting policy, we seek to further the clients' best interest (and, for ERISA accounts, the best interest of plan beneficiaries and participants). One of our Client Services Managers ensures that all proxies we receive are timely forwarded to the proxy-voting

firm. One of our Client Services Managers identifies any potential conflicts of interest arising in connection with a proxy proposal.

### **Resolving Conflicts in Proxy Voting**

If the subject matter of any proxy creates a conflict of interest between us and any of our clients, the proxy voting policy resolves such conflict as follows:

1. We (through the independent proxy-voting firm) will vote in accordance with predetermined guidelines stated in the proxy voting policy ("Guidelines");
2. We will request the client's consent to the vote, after disclosure to the client of the subject matter of the proxy, the nature of the conflict and the proposed decision;  
or
3. The client may direct us to forward proxies involving a conflict of interest to a specified independent third party for the third party's review and recommendation.

Under the Guidelines, we (through the independent proxy-voting firm) generally will vote in favor of progressive policies, socially and environmentally responsible policies, and actions promoting sustainable development and principles of equity, fairness and transparency. We may disregard the Guidelines, however, in situations where a client's best interest would be served by voting otherwise. In that case, we would direct how the independent proxy-voting firm should vote that client's shares.

If the Guidelines do not specify how we should vote on an issue (such as a proposed acquisition), we will decide how to vote on that issue and will direct the independent proxy-voting firm to vote accordingly.

### **Obtaining Proxy Voting Information**

You may obtain a copy of our proxy voting policy or information on how securities in your account were voted by sending a written request to:

Portfolio 21 Investments  
Attn: Client Services Manager  
721 NW Ninth Avenue, Suite 250  
Portland, Oregon 97209-3449

## **Item 18 – Financial Information**

We must disclose any financial condition that could impair our ability to meet our contractual obligations to you. We also must disclose if we have been the subject of any bankruptcy proceeding within the last 10 years.

We have no financial matters to disclose to you, and we have never been the subject of any bankruptcy proceeding.

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