



PATHSTONE
IMPACT

2018
ANNUAL
IMPACT
REPORT



ABOUT PATHSTONE

Pathstone is an independent family and partner owned wealth advisory firm providing objective advice to families, family offices and select institutions. Our strength lies in our deep experience and commitment to innovation. Our disciplined methodologies and informed insights allow clients to incorporate investment opportunities that address their specific needs and desires. Pathstone not only helps clients achieve their investment, philanthropic and financial goals, but also helps clients align their investments with their social and environmental values.

At Pathstone, we are committed to deepening our knowledge and expertise, and enhancing our investment advice to clients passionate about incorporating Environmental, Social and Governance (ESG) factors and Impact strategies. We believe an investment process is often improved with these factors, and we do not expect an adverse long-term tradeoff between values and performance. In fact, there is substantial evidence to suggest that over the long-term, companies' earnings benefit when they:

- treat their stakeholders (customers, suppliers, shareholders and employees) in a fair and sustainable manner;
- have diverse boards and executive leadership;
- utilize their resources in a more efficient manner; and,
- operate in a manner that reduces the emission of pollution and toxins.

ESG factors and Impact criteria provide direct insight into better management teams, and ultimately provide the opportunity for better risk-adjusted returns.

In our view, impact is not limited to a certain type of investment or one area of the capital markets. Investors can have impact across the key asset classes by utilizing investment managers that are better able to incorporate ESG and Impact criteria, and are better able to align their investments with their values.

At Pathstone, we have expanded opportunities for client involvement in ESG. We host client conferences, have a proprietary ESG scoring metric for due diligence, and offer an ESG-integrated investment platform through our P-cubed strategy.

We are proud of the commitment we have made as a firm, through our time and capital, to support not only our own work, but the work that others are doing to make sustainable investing even more sustainable.

**PATHSTONE IS AN
ACTIVE MEMBER IN
SEVERAL INDUSTRY
ORGANIZATIONS.**

SIGNATORY



MEMBER



USISIF

The Forum for Sustainable and Responsible Investment



BASIC BUILDING A
SUSTAINABLE
INVESTMENT
COMMUNITY
BOSTON

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A NOTE TO OUR CLIENTS



Dear Clients, Friends & Family,

It is our privilege to share Pathstone's 2018 Annual Impact Report. Our culture of innovation has enhanced our ability to deliver positive impact across clients' portfolios, while striving for exceptional financial returns. As a trusted wealth advisor, we are grateful for the opportunity to have helped our clients achieve their objectives for much of our history.

This past year, we sought to better understand how investment managers in our clients' portfolios align their investments across the areas of Environmental, Social and Governance, and the UN Sustainable Development Goals. This Annual Impact Report reflects back on these discussions, and the stories managers have shared since the beginning of the year 2018 regarding the impact of their investment strategies. Then, we provide insight into our own firm's impact efforts.

Some of the topics we cover are:

- Pathstone's new ESG scoring metric
- Our commitment to the UN Sustainable Development Goals
- How our clients make an impact through the asset classes
- The 2018 HerPath Conference
- P-Cubed: The Pathstone Portfolio Platform

It is rewarding to reflect on the impact we have achieved this past year – through partnership with our clients, we are working towards cultivating positive social outcomes. We hope that you enjoy reading this report and we look forward to discussing with you further.

Sincerely,

Pathstone Board of Managers
& Pathstone Impact Committee

www.pathstone.com

Massachusetts | New Jersey | Washington D.C. | Georgia | Florida | Oregon | California

INVESTING IN IMPACT

In the 1980s, students across the country gathered to take action on an issue that conflicted with their values: South Africa's apartheid. Initially, these students took to the streets of their campuses, creating a movement for equality and justice — little did they know that their strong values would unite them in pressuring their universities for a new investment strategy. It was universities' divestment from South Africa that eventually helped end apartheid regime and bring about the election of Nelson Mandela.



Universities' actions prompted more investors — from governments to individuals — to divest. This large-scale divestment initiative fundamentally changed the course of South Africa's history. But, this wasn't the first time people aligned their values with their investments. We can find countless examples throughout history of people that have aligned their investments with their values — from early religious scripture advising ethical investing approaches, to the 18th century North American Quakers who refused to own or trade slaves. At Pathstone we share the same belief, and are committed to helping our clients better align their portfolios.

In accordance with each client's mission, we can incorporate **environmental, social, and corporate governance (ESG)** criteria into our investment analysis and portfolio implementation across a range of asset classes. While ESG is an evolving investment field that has expanded from traditional divestment and negative screening into impact investing and beyond, the main idea of value alignment remains the same.

Several of our recommended investment managers' impact strategies include:

- **ESG Integration-** Analyzing potential portfolio holdings through ESG factors which can help illuminate corporate character, identify better-managed companies and offer insight into business risk
- **Shareholder Engagement-** Filing shareholder resolutions to improve portfolio companies' policies and practices, encouraging better corporate citizenship and enhancing the well-being of all stakeholders
- **Impact Investing-** Directly investing in projects, companies, and funds that generate social or environmental impact, such as funding a solar energy project or providing loans that help alleviate poverty

Evolving investment strategies have been coupled with the growth in ESG investing. From the start of 2016 to the start of 2018 there was an increase of 38% of responsibly managed asset pools in the US, from \$8.7 trillion to \$12.0 trillion. As of 2018, roughly one out of every four dollars under professional management in the United States has been invested in impact strategies. Additionally, many of the largest banks have recently introduced socially responsible exchange traded funds. In short, people are recognizing the relevance and proven success of ESG investing in today's world and they want to take part.

As a recognized leader in the field, Pathstone continues to innovate and assimilate new technology into our process to provide a unique approach for our clients as the ESG field continues to grow.

Our adoption of the United Nations' Sustainable Development Goals (SDGs)

On January 1st, 2016, the United Nations officially launched its Sustainable Development Goals (SDGs). The SDGs aim to unite countries and companies in their pursuit of a better future by the year 2030. The 17 SDGs cover three dimensions of sustainable development: economic growth, social inclusion and environmental protection. They also recognize that tackling climate change is essential for poverty eradication when looking at overall sustainable development.

At Pathstone we understand the benefits of incorporating the UN SDGs into investment analysis, since these sustainable initiatives will ultimately lead to a stronger, more resilient, wealthier and healthier global economy. This past year, we engaged our investment managers and surveyed them on their perceptions and uses of the SDGs in their investment decisions, in addition to surveying our advisors to determine which SDGs are perceived to be of greatest interest to their clients. As you will see in the next few pages, we have taken the opportunity to clearly outline how a number of our investment managers' impact stories are aligned with certain UN SDGs.

While our commitment to and implementation of the SDGs is in its beginning stages, we look forward to promoting this framework so we can continue to help our clients to invest in congruence with their values.



HOW OUR CLIENTS MAKE AN IMPACT

In this section, we discuss our recommended investment managers' initiatives in creating impact through Public Equity. Public companies tend to have a global reach, meaning public equity investments have potential for widespread impact.

Pages 6-19 have been redacted from this version of the Impact 2019 report. The content on these pages is only available to Pathstone clients. If you are a Pathstone client, please contact your advisor for access.

PATHSTONE’S IMPACT INITIATIVES

In this section of the report, we discuss our firm’s ESG involvement and engagement with peers in the investing sphere.

HerPath Conference:

“Women empower and enrich women when they meet and share ideas.” -- A key takeaway from Pathstone’s

“Leadership at Pathstone is made up of very smart people, and a significant number of those leaders are women. To us, HerPath is an initiative that aims to replicate externally, the culture of diversity in leadership we have internally. With an understanding that women control more than half of US personal wealth, Pathstone’s intention behind HerPath is to create tools and strategies that help women embrace the magnitude of their role and navigate the financial complexities they face with confidence.”

-- Matthew Fleissig,
Pathstone President

On April 13, 2018 we launched our first HerPath event in New York City. HerPath is an initiative dedicated to advancing the impact of women’s role in their finances. Whether novice or already financially sophisticated, we designed HerPath with the intention of ensuring women are equipped to become successful stewards of multigenerational wealth.



HerPath conference in April 2018.

Recent research shows women control more than half of US personal wealth—and that number is growing. Most recently a study by Mercer found that financial wellness is tied to financial confidence or “courage.” Pathstone’s intention behind HerPath is to create tools and strategies that help women embrace the magnitude of their role and navigate the financial complexities they face with confidence. Through HerPath we are providing the space for women to come together, exchange ideas, and learn.

The event catered to Pathstone female clients and was attended by seventy-five women. After an evening of networking, attendees participated in a full-day conference on Friday, which included talks by female leaders in the financial industry and interactive learning sessions.

Pathstone remains committed to empowering women and is actively working on new programs for our clients. In fact, we are currently planning deeper-dive learning sessions covering topics such as Investing 101 and ESG across our local offices. The first two events will take place on November 14, 2018 and will be held in our Boston and Potomac offices. Sessions in LA, Atlanta, Englewood and Naples are tentatively planned for winter of 2019. If you want more information, please reach out to your advisor.

New ESG Scoring Metric:

Objective: Our goal is to provide scoring at the manager, asset class and portfolio level that will help clients understand how their portfolio holdings compare to widely used benchmarks along the dimensions of Environmental, Social and Governance (ESG) criteria.

In public equities, datasets are available from a number of vendors, and each of these datasets has advantages and disadvantages. Acknowledging these limitations, we have developed a scoring framework for public equities that offers the most complete picture of company and portfolio level ESG disclosure and performance.

After reviewing our options, we choose the best ESG ratings data available, adjust the weightings that are placed on Environmental, Social and Governance pillars, adjust the scores for egregious controversies, and eliminate systematic biases when possible.

Finally, we incorporate a measure of the investment firm's intentionality by actively surveying the firms' integration of ESG perspectives into their investment research process. To learn more about our ESG scoring system, please reach out to your advisor.

Approach: While ESG rankings are useful, we have taken steps to improve the comprehensive measurement and comparability of the data. In our view environmental, social and governance criteria should be measured relative to peers, and weightings placed on the criteria should not shift from sector to sector. In addition, it is our belief that companies that are involved in egregious controversies, which present serious or high business risk, should have their score adjusted downward in a clear manner.

In addition to controversies, we review the broad universe of company scores and adjust for bias that systematically rewards or punishes companies based on either its size (grouping companies by market capitalizations of Mega Cap, Large Cap, Mid Cap and Small Cap) or its region (grouping companies by whether their headquarters are based in the U.S., International or Emerging Markets). We have found there are systematic and significant biases along these dimensions. We analyze the E, S and G pillars separately to review the relationships among these variables and adjust for bias accordingly.

Once we have adjusted for controversies, capitalization bias and regional bias, Pathstone combines the proprietary E, S, and G rankings, with a modest emphasis on the Environment.

Survey of Investment Firms for Intentionality: The final step of the process involves surveying investment management firms for intentionality. In order to review whether managers actively integrate ESG and Impact into their investment processes, we survey firms that manage money for our clients by reviewing their Actions, Intent, and Results. Our measure of intentionality appropriately compensates firms that are actively engaged in thoughtful shareholder engagement with underlying portfolio companies, and are voting proxies in a responsible and thoughtful manner. The adjustment also helps separate those that "just happen to have" portfolios with exceptional ESG scores from those that have arrived at their exceptional scores through a deliberate process.

After assembling Pathstone ESG scores for each investment manager's strategy, we provide a modest boost to strategies that are managed by firms that score very well across the survey metrics.

The end result of companies' Pathstone ESG scores are on a 1 to 200 scale, centered around 100, with a score of 200 being the best, and a score of 1 being the worst.

Reporting the Pathstone ESG Score: The resulting Pathstone ESG score is available to clients in the P-Cubed (Pathstone Portfolio Platform) account structure quarterly reports, along with comparisons to benchmarks. In addition, manager scores are rolled up to the asset class and portfolio level, with comparisons to appropriate blended benchmarks. As an endnote, we will be first to recognize that the process is not perfect, and that there are areas for improvement, as in any scoring system that requires a large amount of data. We are dedicated to updating our rating methodology periodically in order to ensure we incorporate the best measurement approaches, the most relevant issues, and the most current knowledge. We will continue to embrace a variety of measurement approaches that focus on materiality, enhance comprehensiveness, consider long-term results while providing insight into shorter term trends, help capture all portions of a company's value chain, and allow for comparability over time to relevant peer companies and indexes.

INVESTMENT PERFORMANCE- ESG

PATHSTONE

Sample Client
Quarter Ending September 30, 2017

Investment Name	Percent	Market Value	Latest Month	Latest Quarter	Year To Date	Trailing Returns 3 Year:5 Years	Manager / Fund Inception Date	vestme Index	ESG Score. Inv. Index
Total	100.0%	\$46,058,503	1.2	2.1	7.6	5.1 6.9	12/31/09	6.9 6.2	58.2 47.8
Total Weighted			0.6	2.0	7.7	4.7 6.0			
Asset Class 1	11.1%	\$5,111,044	2.6	3.8	13.1	8.9 13.8	12/31/09	13.0 13.5	59.5 51.0
Benchmark 1			2.1	4.5	14.2	10.8 14.2			
Manager Name Redacted	0.7%	\$337,743	2.8	3.5	8.1	- -	12/18/14	7.2 7.4	56.1 42.4
Benchmark 2			3.0	3.1	7.9	8.5 13.2			
Manager Name Redacted	0.5%	\$245,013	-	-	-	- -	09/20/17	0.5 0.5	51.3 51.1
Manager Name Redacted	2.8%	\$1,309,310	3.3	3.6	16.5	- -	03/16/16	19.1 17.5	61.4 51.1
Manager Name Redacted	1.8%	\$817,200	2.6	2.1	-	- -	06/30/17	2.1 4.5	63.8 51.1
Manager Name Redacted	0.8%	\$365,043	-	-	-	- -	09/20/17	0.5 0.5	58.4 51.1
Benchmark 3			2.1	4.5	14.2	10.8 14.2			
Manager Name Redacted	2.5%	\$1,154,106	2.7	5.0	12.5	10.5 14.6	07/08/11	13.2 12.8	56.9 51.1
Benchmark 4			2.1	4.5	14.2	10.6 14.3			
Manager Name Redacted	0.8%	\$349,231	-	-	-	- -	09/20/17	0.3 0.3	61.1 53.6
Manager Name Redacted	1.2%	\$533,399	1.4	4.1	14.7	9.6 13.7	12/31/09	13.4 14.4	58.9 53.6
Benchmark 5			1.3	5.9	20.7	12.7 15.3			

*This is a sample report based on a hypothetical client to illustrate the format of the integration of ESG scoring in our client reports. It is not intended to show actual or anticipated investment performance of any current or future client, nor to represent the results of any Pathstone advice or investment strategy.

P-Cubed: Pathstone Portfolio Platform:

The Pathstone Portfolio Platform (P-Cubed) is an innovative investment structure that provides the ability for investors to hold diverse investments in a single account with the goal of lowering costs and improving efficiencies. Holdings may consist of both passive and active separately managed accounts (SMAs), mutual funds, exchange traded funds (ETFs) or single stock positions across a variety of asset classes.



In addition to the compelling benefits of fee savings, tax savings, and customized portfolio construction, the P-Cubed account structure also allows for greater impact through an ESG-specific solution that includes the following:

Access to carefully designed ESG strategies:

- Delivers a proprietary lineup of recommended ESG strategies, supported by robust due diligence and monitoring
- Lower costs that result from reduced manager fees and custodial fees
- For taxable clients, a lower tax bill that results from active harvesting of losses

Impact via ESG-aligned proxy voting and shareholder engagement:

- ESG-directed proxy voting through a leading governance research and proxy advisory platform
- Option to participate in strategic shareholder engagement opportunities aimed at promoting corporate accountability across a range of ESG issues

Custom screening for investment issues:

- Comprehensive and consistent screening across investment strategies in specific issue areas of concern to investors, such as tobacco, alcohol, gambling, weapons, fossil fuel exposure and carbon intensity
- Screening can also be applied to individual company names and industry groups

Differentiated transparency via proprietary ESG scoring:

- Access to proprietary ESG scoring that encompasses a range of ESG indicators for underlying companies
 - ESG factors focus on areas such as employee diversity, resource use and efficiency, or data privacy practices
- Offers insight into ESG performance at the manager and portfolio level measured against a relevant benchmark
- Provides clients greater understanding of their investments and a valuable perspective on portfolio-level ESG risk and opportunity

Pathstone's Impact Conferences and Speaking Engagements

We strive to be thought leaders in the ESG/impact investing field, and frequently participate in and contribute to various conferences and organizations. Below we highlight several of our engagements over the past year:

Fall & Winter 2017

Pathstone Hosted PRI Conference (October 6, 2017)

Pathstone hosted a conference in Boston entitled “Program Related Investments (PRIs): Creating BIG IMPACT through Innovative Philanthropy.” The event brought together over 70 attendees including non-profit organizations, individual investors, practitioners, and thought leaders in this area. Fidelity Charitable, Fidelity Investments, Lyme Timber, and Nutter McClennen & Fish LLP were among the co-sponsors of the conference.

The conference gave real-life examples of how investors are catalyzing impact in the areas of environmental conservation, sustainable food and agriculture, and global health. Over lunch the keynote speaker, Curt LaBelle, Managing Partner of the Global Health Investment Fund, described their successful approach in developing drugs, vaccines and medical devices that target neglected diseases in low- and middle-income countries, saving lives with their work. The Bill and Melinda Gates Foundation boosted the scale of the impact by mitigating downside risk with a layer of catalytic first loss capital.

Foundation leaders and asset owners came away from the event empowered with knowledge and resources to structure and deploy PRIs for maximum impact.

Wealth Management Impact Investing Forum (September 19, 2017)

Jennifer Murtie spoke at the "Aligning Client Portfolios with Their Values: Making Sense of Different Goals and Expectations" panel at the 2017 RIA Institute's Wealth Management Impact Investing Forum held at Laguna Beach, CA.

Investing for Impact Lunch (October 5, 2017)

Charlie Walsh co-hosted the Investing for Impact Lunch in Boston, MA, organized by Karen Keating Ansara and co-hosted by Ken Ansin. The conversation focused on MCE Social Capital—one of Pathstone's recommended investment managers in the fixed income space. Director, Alex Hart, also gave a presentation on Pathstone's due diligence process at the event.

Sustainatopia (October 1, 2017)

Mark Peters spoke at Sustainatopia month in Boston on "Dynamic Approaches to Integrating ESG into Equity Portfolio Construction." Fellow panelists included Erin Kerr, Choate; Karina Funk, Brown Advisors; Michael Poisson, Ideal Ratings; and Valerie Grant, AllianceBernstein.

28th Annual SRI Conference in San Diego, CA (November 1, 2017)

Jeff Scheer spoke on a panel entitled "ESG Integration Across Asset Classes: Equity Indexes, Green Bonds, and Private Equity." Jeff's co-panelists were Thomas Kuh, Ryan Miller (Malk Partners), and Sarah Wilson (TIAA).

Confluence Philanthropy's Midwest Water Summit, Minneapolis, MN (November 8, 2017)

Jeff Scheer and fellow panelists, Adrian Horotan (Safer Made) and Marcus Quigley (Opti), discussed "Innovations in Water Investing."

Spring 2018

Impact Summit (February 9, 2018)

Jennifer Murtie participated in a panel discussion at the 2018 Impact Summit in Boston, MA, organized by Net Impact. The sixth annual summit brought together local professionals and graduate students from the greater Boston area interested in positive social or environmental impact. Topic of the panel was "Next Wave for Impact Investing: The Circular Nature of Capital Formation, Connecting Social Businesses to Investor Values."

Confluence Philanthropy's Annual Practitioners' Gathering (March 12, 2018)

Jeff Scheer and Patricia Farrar-Rivas, CEO at Veris Wealth Partners, led a welcome session at the Confluence Philanthropy's Annual Practitioners' Gathering. This half-day training served as an introduction to the concepts of mission related investing for asset owners new to MRI, and explored fiduciary duty, engaging investment advisors, and other topics critical to new mission related investors.

Impact Investing Forum (April 24, 2018)

Jennifer Murtie moderated a panel at the Impact Investing Forum held in West Palm Beach, FL. The panel's topic of discussion was "Program Related Investments (PRI) and Mission Related Investments (MRI)."

CONCLUSION

We are hopeful that this report has given you an overview of how we have delivered impact this past year to clients through the investment strategies within portfolios, along with our own firm's efforts. From giving market access to soybean farmers, to promoting equality in the largest companies' boardrooms, our clients achieve a diversified impact through our recommended investment managers. Our commitment to helping our clients make an impact is also reflected with our own firm's engagement in the ESG investing sphere. As we move forward, we remain committed to expanding the opportunity set of investments available, and the culture and understanding of ESG and Impact investing within the industry.

For additional information on this report, or our investment solutions, please contact your Pathstone advisor.

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