



PATHSTONE  
IMPACT

2019  
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 enable us to deliver investment opportunities that help clients best achieve their objectives. In addition to focusing on their financial goals, Pathstone also helps clients deliver positive impact through their investments and philanthropy, while aligning investments with 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 ESG factors and performance. 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 way; 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 an 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 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

---



The Forum for Sustainable and Responsible Investment



## TABLE OF CONTENTS

<b>A Note to Our Clients</b> .....	<b>3</b>
<b>Introduction to Impact Investing</b> .....	<b>4</b>
<b>Impact Through Our Investments</b> .....	<b>6</b>
Public Equity .....	7
Fixed Income .....	18
Private Equity .....	23
Donor-Advised Funds .....	38
Impact Investment and Measurement .....	39
Our Speaking Engagements .....	42
Our Own Impact .....	43
Conclusion .....	44

## A NOTE TO OUR CLIENTS



Dear Clients, Friends & Family,

We are excited to share with you Pathstone's 2019 Annual Impact Report. 2019 has been a year of tremendous growth for the sustainable investment industry and Pathstone has been at the forefront of innovation for our clients. Our commitment to impact investing and ESG integration has solidified over the past year allowing us to offer clients the ability to align investments with environmental and social values.

This year, through our rigorous research process, we were able to recommend investment managers who are investing in impact across multiple themes. We actively improved our measuring capabilities through our proprietary ESG scoring process and expanded our efforts to align investments with the UN's Sustainable Development Goals.

This Annual Impact Report reflects on our year of discussions with investment managers regarding the impact of their strategies. In addition to our clients' investments, we also reflect on our involvement in industry-wide discussions around sustainable investment as well as Pathstone's own direct impact efforts.

Moving forward, we will continue to embrace the shift of investments toward sustainable causes. We continue to seek new opportunities for our clients to generate social and environmental impact alongside their financial goals.

We hope you enjoy this Annual Impact Report and we look forward to further discussions regarding how we can provide the greatest impact for our clients.

Sincerely,

Pathstone Board of Managers  
& Pathstone Impact Committee

---

[www.pathstone.com](http://www.pathstone.com)

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

## INTRODUCTION TO IMPACT INVESTING

### What is Impact Investing?

The term “impact investing” refers to the practice of investing with the intention of generating positive, measurable social and environmental impact as well as financial returns.<sup>1</sup> Many proponents view impact investments narrowly, relegating them to the areas of private equity or debt. In our view impact occurs across asset classes, as managers integrate Environmental, Social and Governance (ESG) metrics and United Nations’ Sustainable Development Goals (UN SDGs) into their investment process.

### History

Impact investing, also known as sustainable and responsible investing, has been around for many years in slightly different forms. However, the term impact investing has only come into the forefront of finance in the last 30 years. The earliest known example of impact investing goes back to biblical times when ethical investing was mandated by Jewish law. Responsible investment also exists in the Qur’an, which bans investment in alcohol, pork, gambling, and certain precious metals.

The 1980s saw nuclear disasters such as Chernobyl and Three Mile Island, which caused growing concern over the environment and led to the launch of the US Sustainable Investment Forum in 1984. The early 1990s saw a dramatic shift for the sustainable investment space as student protests led to a massive divestment from South Africa because of its apartheid policies.

Throughout the 2000s, investors began to slowly implement responsible investing principles into their investment strategy. Sustainable investing started with negative screening, or removing certain companies or themes from a portfolio, and has evolved into impact investing which invests in companies that are making positive impacts.

ESG analysis reviews the company’s treatment of its various stakeholders. Measures of environmental stewardship, responsible treatment of employees, and good governance policies have become a major consideration for many investors.

### Present and Future

Estimates of the size of the industry vary, but it is clear that impact investing is growing at a rapid pace. The 2018 Report on US Sustainable, Responsible and Impact Investing Trends published by US SIF highlights 38% growth over two years in sustainable, responsible and impact assets, from \$8.7 trillion in early 2016 to \$12 trillion in early 2018. Over the longer time horizon going back to 1995, US SIF notes that assets have grown more than 18X, equating to a compound annual growth rate of 13.6%.<sup>2</sup>

The Global Impact Investing Network (GIIN) measures a narrower segment, focusing largely on private investments, and their numbers also point to strong growth. The GIIN’s comprehensive analysis indicates that the private impact investing market has reached \$502 Billion. The GIIN report notes that the majority of active impact investing organizations made their first foray into the area within the last ten years.

---

<sup>1</sup> US SIF, 2018

<sup>2</sup> GIIN, 2019

Sustainable investing has grown as trends such as climate change, gender inequality, and irresponsible corporate practices have gained significant media attention. Companies are beginning to realize they need to adapt, and that their financial health is tied to the well-being of society at large.

Many companies are beginning to take a proactive approach to reporting ESG data. The abundance of data is making it easier to measure the actions of a company quantitatively, and enhances comparability across companies. Sustainable, responsible and impact strategies allow investors to take into account material information left out of traditional GAAP financial accounting. Investors are able to tilt their portfolios toward more positive impact, and to better align investments with personal or organizational values. We believe thoughtful implementation of ESG and impact investing strategies across a portfolio can result in financial returns that are comparable to, or better than, the returns from major capital market indices over the long term.

## The UN Sustainable Development Goals (SDGs)

On January 1<sup>st</sup>, 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 acknowledge that tackling climate change is essential for poverty eradication when looking at overall sustainable development. The UN recognizes the interconnected-ness of the goals and the ripple effects of action toward the goals can be profound.

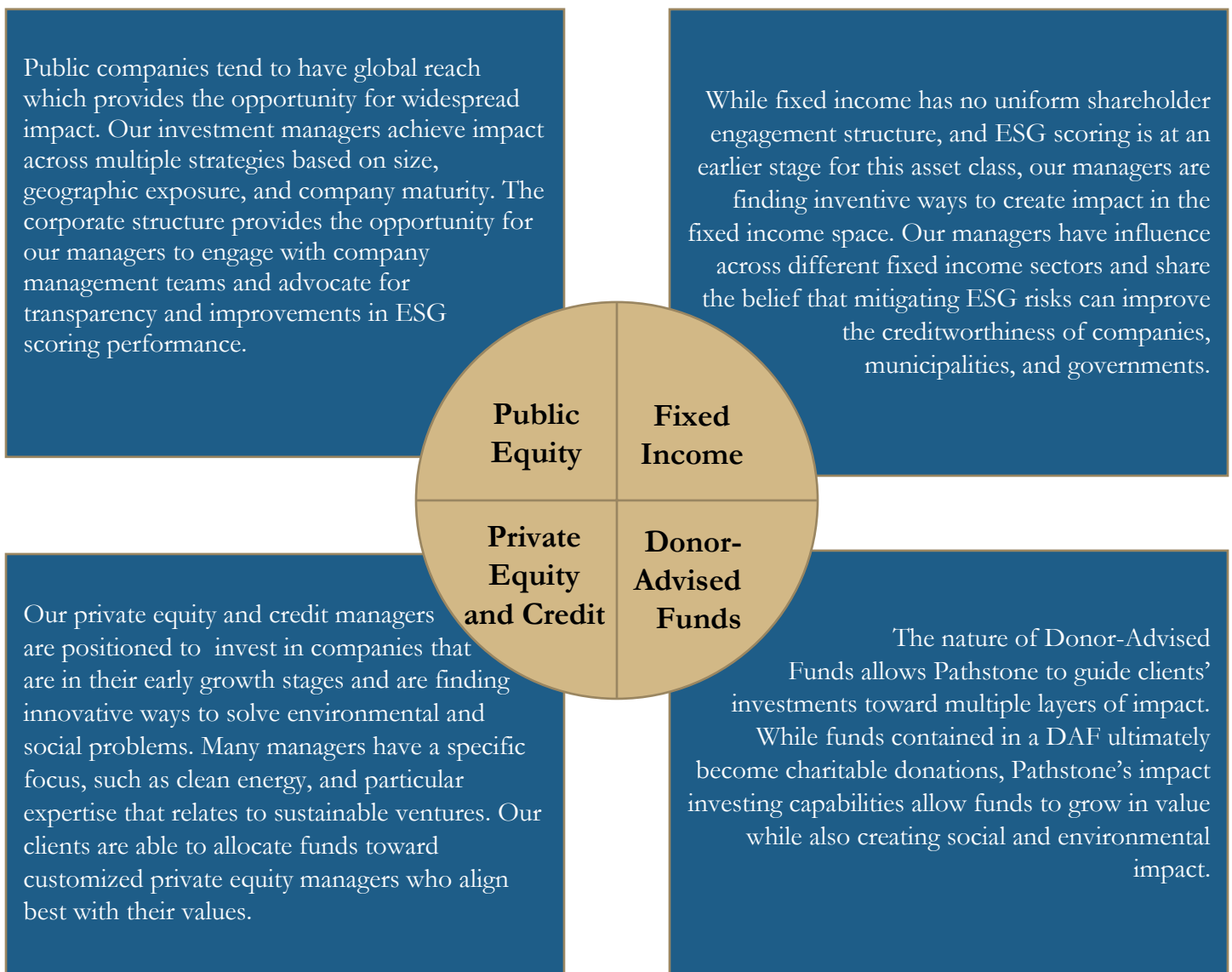
At Pathstone, we understand the benefits of incorporating the UN SDGs into investment decisions, since these sustainable initiatives will ultimately lead to a stronger, more resilient, wealthier, and healthier global economy. We continually engage our investment managers by surveying their perception and use of the SDGs as a framework to create impact. Many of our managers, either directly or indirectly, use the SDGs as a guiding principle for impact. Our commitment to an implementation of the SDGs is strong. We see SDGs as guideposts to investment opportunities in important areas where capital is required. We encourage all of the managers we recommend to review their investments for the impact they have across the SDGs.



## IMPACT THROUGH OUR INVESTMENTS

### How Pathstone Achieves Impact

In this section, we discuss how our recommended investment managers achieve impact through their analysis and decisions. Many of our managers share our belief that companies that focus on environmental, social and governance excellence are better positioned to achieve financial success in both the short and long term. Pathstone recommends complete portfolio solutions to clients. In order to do so, we seek out exceptional investment managers and investment strategies across all asset classes that we believe are able to deliver strong financial returns, while incorporating ESG and impact in a thoughtful manner. In this report, we outline some of our recommended managers that create intentional impact through their investments.



**Pages 7-37 are not included in this executive summary version of the 2019 Annual Impact Report. The content on these pages is only available to Pathstone clients. If you are a Pathstone client, please contact your advisor for access.**



## OPPORTUNITY ZONES

Opportunity Zones are a new community development program designed to expand economic development and create jobs in distressed communities. Through the program, first released in the 2017 Tax Cuts and Jobs Act, investors may reinvest all or a portion of their realized capital gains from a sale of an appreciated asset to organizations that act as Opportunity Zone Funds. These funds will then invest in businesses located in Qualified Opportunity Zones. As of May 2018, there are 8,760 Opportunity Zones. These zones are low-income communities that have at least a 20% poverty rate or a median income that is less than 80% of the surrounding areas. A study of Opportunity Zones revealed that 57% of the population is non-white, and the actual poverty rate is 31%. Investment in Opportunity Zones can create an enormous impact for struggling communities in the United States. Using an Opportunity Zone Fund, benefits may take the form of subsidized housing units, additional open space, community meeting rooms, or worker training programs. While regulations are continuously being updated, Opportunity Zone Funds are expected to grow substantially in the coming years, with potential to create significant societal benefit.<sup>40</sup>



## DONOR-ADVISED FUNDS

According to the National Philanthropic Trust, there are currently \$110 billion in assets held in Donor Advised Funds (DAFs).<sup>41</sup> A Donor Advised Fund is a philanthropic account structure that allows an investor to donate assets, typically with large unrealized gains, into a charitable entity. The investor receives a tax write-off from the charitable donation, the assets grow tax-free outside the investor's estate, and the investor is able to recommend gifts from the account to support charitable organizations that are aligned with their philanthropic objectives. DAFs also offer flexibility in that they have relatively small account minimums, and they do not require a minimum annual disbursement; these are major differences from private foundations. Without a minimum disbursement requirement, donors are better able to benefit immediately from the tax advantages of donating assets, grow their investments over the long term outside of their estate, and have greater flexibility with regard to the timing of their gifting.

DAFs present a large pool with significant potential for impact and values-aligned investing. Pathstone's investing expertise offers donor advisors the opportunity to grow their capital responsibly, while maximizing impact. Traditionally, DAFs have functioned as an account that appreciates through traditional financial products and makes philanthropic contributions to deliver a positive impact. However, investors increasingly have embraced the opportunity to shift assets within DAF accounts into investment strategies that incorporate ESG and impact, maximizing social and environmental impact. By using ESG and impact-focused investment vehicles, on their own or in combination with more traditional financial products, DAFs are able to deliver positive impact over the life of the investment portfolio, in addition to positive impact through charitable gifts.

<sup>40</sup> (Dixon, Grandits, Peters, & Scheer, 2019)

<sup>41</sup> (National Philanthropic Trust, 2018)

There are a number of unique aspects of DAFs that make them intriguing for impact investors. For example, a DAF may allow a funder to recommend a “recoverable grant” to a philanthropic organization that requires a bridge loan to complete a project. This type of arrangement offers an opportunity for repayment, but with the knowledge that it will be deemed a traditional grant to the organization if it is not repaid. Such an asset may be viewed as falling within the “space between” market rate investment returns and pure grants with a financial “loss” of 100%. A recoverable grant may be viewed as offering to deliver a hybrid return, one that combines both philanthropic impact and financial return.

## **IMPACT INVESTMENT AND MEASUREMENT**

### **Impact Measurement for our Clients**

Pathstone is committed to moving forward as a thought leader and champion of environmental, social, and governance analysis integration and impact investing. As an investment manager, we strive to identify innovative ways to align investments with the values of our clients.

In addition to our comprehensive due diligence on investment managers, Pathstone has developed our own proprietary ESG scoring system that incorporates metrics at the manager, asset class, and portfolio level to help clients understand how their portfolio holdings compare to benchmarks in terms of ESG scoring.

After reviewing a wide range of public equity data providers, 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.

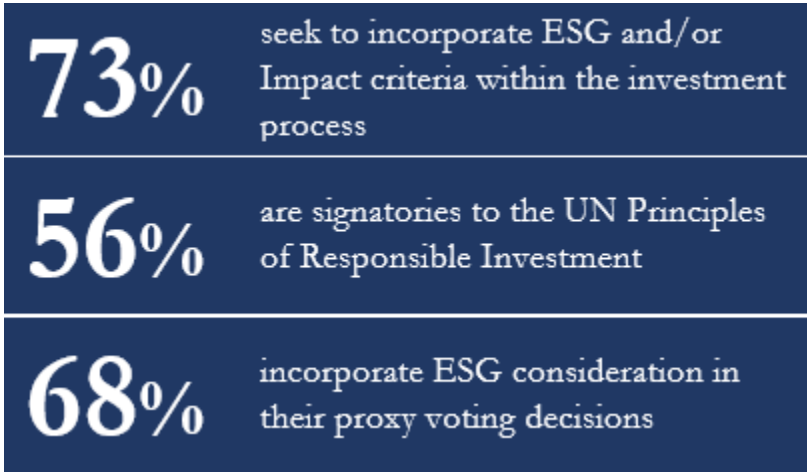
### **Our ESG Scoring**

While ESG scores are useful, we have taken steps to improve the comprehensive measurement and comparability of the data. We review the broad universe of company scores and adjust for biases that systematically reward or punish companies based on either size (grouping companies by market capitalizations of Mega Cap, Large Cap, Mid Cap, and Small Cap) or 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. 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.

At Pathstone, we believe the UN’s Sustainable Development Goals are a useful tool for aligning investments with impact. Our survey reviews which SDGs our managers align their investments with to generate impact. A growing number of our managers are adopting the UN SDG impact framework and maximizing the benefit of their investments through an intentional impact strategy. *(Note: The size of each box corresponds to the amount of portfolio exposure that maps to the respective UN SDG.)*



*Survey data is based on 45 survey responses in Q1 of 2019.*

## Reporting the Pathstone ESG Score

The result of companies' Pathstone ESG scores are reported 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.

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.

## Engagement and Proxy Voting

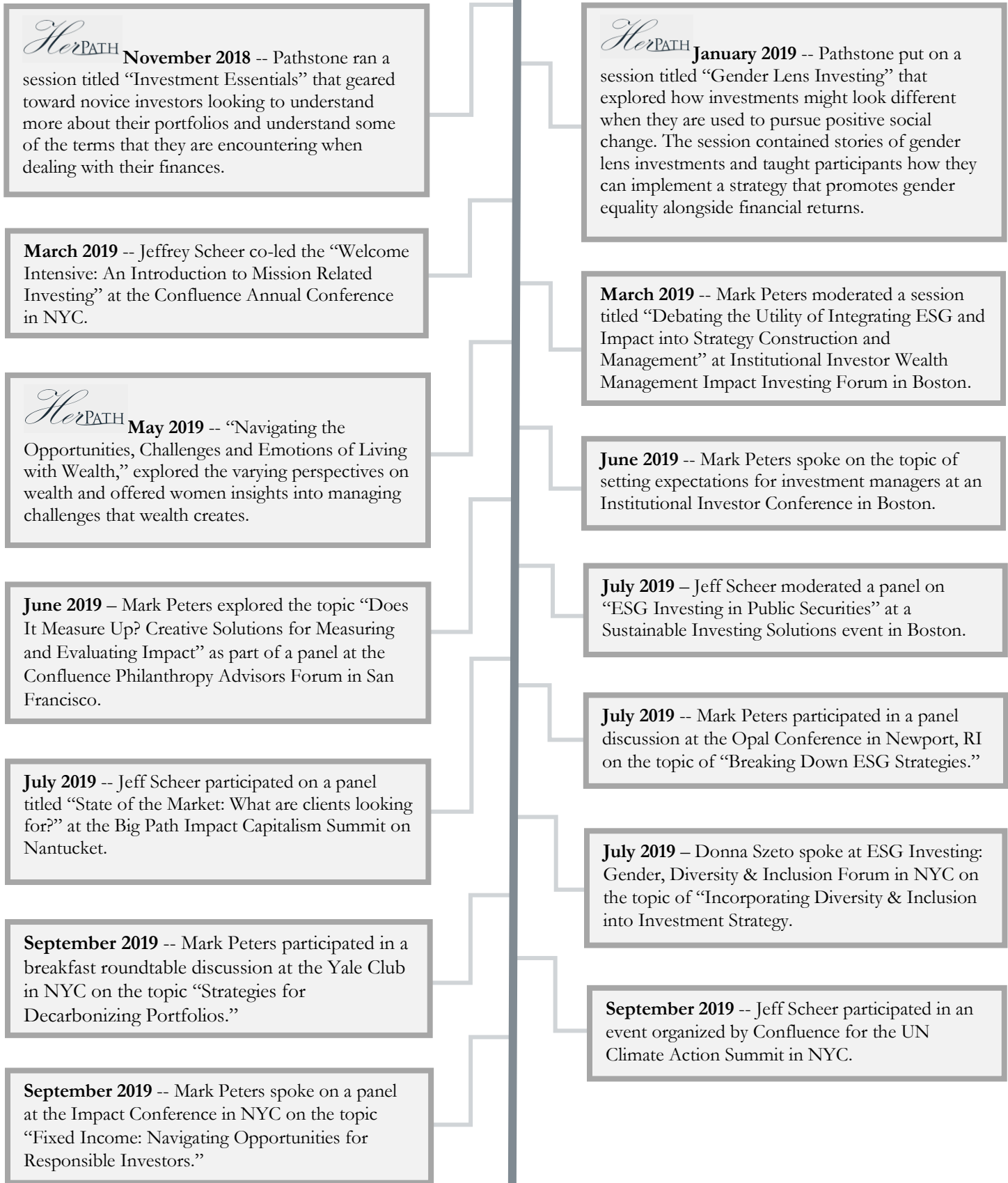
One way that many investors can create impact in alignment with their values is by engaging with companies. Owning shares of a public company offers investors a voice at annual shareholder meetings where they can use their proxy voting power to provide their input on how the company should be managed. In addition to voting, shareholders with significant stakes in the company can submit shareholder resolutions for a vote. There are sweeping trends in shareholder engagements over the past five years, with shareholders demanding increased transparency from companies. Environmental and Social stewardship shareholder proposals often receive broad support, and Board of Director positions are being contested more than ever to ensure good governance practices.

Pathstone's clients are involved in a number of engagements through investment managers. Many managers have engagement strategies that push companies to be more environmentally and socially responsible. Pathstone also maximizes impact through its partnership with As You Sow. As You Sow is an organization that specializes in shareholder engagement on ESG issues. Pathstone's clients can select from a list of engagement focus areas that As You Sow provides, and align their values with shareholder proposals that improve environmental, social, and governance practices.

## The Bottom Line

Pathstone employs a rigorous research process for selecting managers across multiple asset classes for investment by our clients. Our research goes beyond traditional financial analysis to offer our clients the ability to measure risk and return as well as environmental and social impact. Through P-Cubed, clients have access to tools that measure the impact of current holdings against benchmarks, and our advisors are continuously recommending new ways to create impact that aligns with the values of our clients. Our measurement strategy allows our clients to experience transparency on the ESG scores of their investments on multiple levels, and allows us to track our progress on enabling clients to achieve positive impact through their investments.

## OUR SPEAKING ENGAGEMENTS



## HERPATH

---

Pathstone's HerPath is a series of events dedicated to advancing the impact of women's role in their finances. The HerPath initiative kicked off with a conference in New York City in April of 2018 that brought together over 75 women of varying financial knowledge. Since then, HerPath has sponsored various learning sessions and networking events catered to female clients. Demographic trends indicate women are outliving men and are increasingly controlling more and more personal wealth. HerPath aims to provide women with the tools and strategies to be good stewards of multigenerational wealth.

## PATHSTONE 2019 IMPACT CONFERENCE

---

On November 12th, Pathstone held its 2019 Impact Conference titled “**Everyone Should Get it – ESG.**” *When we say “Get it” we mean understand why Environmental, Social and Governance perspectives make economic sense, understand how investment managers incorporate ESG into their processes, be open to hiring exceptional ESG investment managers, and look to measure ESG across investment strategies.* The conference featured top investment managers (Breckinridge Capital Advisors, Boston Common Asset Management, Parametric, Summit Partners, The Ecosystem Integrity Fund, and New Energy) and philanthropists, discussing how to activate your whole portfolio.

## OUR OWN IMPACT

Aside from helping clients achieve their philanthropic goals, and pushing the industry toward better ESG and impact practices, Pathstone takes its own sustainability very seriously. To accomplish our long term goals as a company, we must consider how we are impacting society and the environment. The sections below offer a glimpse into our offices – how we strive to operate sustainably, and how we strive to improve along ESG dimensions:

*Jeans Fund:* As a way of giving back to the communities surrounding our offices, Pathstone offers its employees the option to wear jeans to the office on Fridays each week in exchange for a \$5 donation. The donations are then distributed to charities selected by our employees. The Jeans Fund has been operating for many years and has delivered substantial impact. This year our employees donated over \$26,000 to charitable organizations in our communities. Some of the beneficiaries are listed below:

- *Children's Healthcare of Atlanta*
- *Lovin' Spoonfuls*
- *The Leukemia & Lymphoma Society*
- *The American Society for the Prevention of Cruelty to Animals® (ASPCA®)*
- *Make-A-Wish*
- *Save the Children*
- *NCH Safe & Healthy Children's Coalition*
- *California Wildfire Relief Fund*
- *Boston SCORES Charity Soccer Tournament*

**Boston Scores** is a non-profit organization and affiliate of America Scores, whose mission is to provide urban youth with team-based education programs that promote health & well-being, academic engagement, and civic leadership. Each year, they host a soccer tournament made up of corporate-sponsored teams, to raise money for the organization. Pathstone fielded a team in the 2019 tournament to raise money for a good cause, in a way that is fun for our employees.

**Employees:** At Pathstone, our employees are our most valuable asset, and we recognize our responsibility to provide well-paying jobs, a comprehensive benefits package, and healthy culture for our employees to thrive. We promote an inclusive culture that values diversity by gender, race, and sexual orientation. We encourage our employees to pursue healthy lifestyles by providing unlimited vacation time, healthy snacks, and the opportunity to participate in activities and sports.

**Public Transit Reimbursement:** Pathstone recognizes the role that efficient public transportation systems play in reducing carbon emissions from the transportation sector. To promote the use of public transportation, Pathstone provides a substantial subsidy for employees that commute by bus and/or train.

**The Impact Committee:** The Impact Committee's mission is to propel Pathstone forward as a continued thought leader and champion of Environmental, Social and Governance (ESG) and Impact investing. The Impact Committee identifies ways the firm can help clients better align their investments with their values or mission. With the backing of the organization's senior management and the support of the research team, the Impact Committee is a source of education in different forms for employees as well as clients and helps shape annual ESG research priorities and the framework for ESG/Impact portfolio construction.

**Path4Impact:** This year Pathstone launched an initiative entitled Path4Impact, which seeks to deliver positive and measurable impact for our community, our employees and our environment along the dimensions of E, S and G. This initiative has representatives from each of our offices, reports to the Impact Committee, and is tasked with helping Pathstone become a better-managed business overall. Path4Impact focuses on ways in which the company can use resources more wisely, reduce our emissions, encourage product innovation for the benefit of clients, improve our work environment and governance, and encourage a healthy, fun and ethical culture.

## CONCLUSION

We hope this report has given you a better understanding of Pathstone's ability to generate impact over the past year. Our impact investing capabilities allow us to offer clients impact across multiple asset classes. We understand the challenges society faces going forward, and embrace the opportunity to help guide clients' money toward issues they care about. Our commitment to impact is also reflected in our engagements in the ESG sphere and our own firm's actions. We continue to promote the understanding of sustainable investments with our clients and look forward to the opportunities and challenges ahead.

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

## DISCLOSURE

---

This presentation and its content are for informational and educational purposes only and should not be used as the basis for any investment decision. The information contained herein is based on publicly available sources believed to be reliable but is not a representation, expressed or implied, as to its accuracy, completeness or correctness. No information available through this communication is intended or should be construed as any advice, recommendation or endorsement from us as to any legal, tax, investment or other matters, nor shall be considered a solicitation or offer to buy or sell any security, future, option or other financial instrument or to offer or provide any investment advice or service to any person in any jurisdiction. Nothing contained in this communication constitutes investment advice or offers any opinion with respect to the suitability of any security, and this communication has no regard to the specific investment objectives, financial situation and particular needs of any specific recipient. Past performance is no guarantee of future results. Additional information and disclosure on Pathstone is available via our Form ADV, Part 2A, which is available upon request or at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Any tax advice contained herein, including attachments, is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of (i) avoiding tax penalties that may be imposed on the taxpayer or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.