



PATHSTONE



# Pathstone Impact Report:

Clients, People, Community

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This company is committed to  
accountability, transparency,  
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Corporation

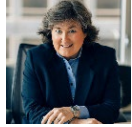
Pathstone is an independently owned and operated advisory firm offering highly customized services and investment advice for multigenerational families, family offices, and foundations and endowments.

Our expertise, scale, and full suite of in-house offerings enable us to provide unparalleled service and comprehensive, innovative solutions.



# Pathstone's Impact in Review: Introduction

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## Erika Karp

EXECUTIVE MANAGING DIRECTOR  
CHIEF IMPACT OFFICER

On behalf of Pathstone's Executive Leadership Team and Impact Committee, I am delighted to share the Pathstone Impact Report. This report reflects Pathstone's efforts to create value for our clients, our people, and our communities during a period of tremendous upheaval in our world. This same period has been a time of much positive change and growth at Pathstone as we continue to evolve with a focus on perfecting the experience of both our clients and team members. The Pathstone Impact Report, which covers the 2021-22 period, offers a window into our efforts to integrate our core focus on innovative client service, valuing our people, and serving our communities into all we do as a firm.

It has been and will remain Pathstone's goal to be a leader in providing comprehensive, highly customized investment advisory and wealth management services for **clients** with complex needs. We offer thought leadership, deep subject-matter expertise, and operational and technological excellence to our clients. Given the focus of this report on the impact Pathstone has had on our sphere of influence, our section on "Amplifying Impact Through Client Service" focuses primarily on our efforts on behalf of those clients who incorporate values alignment, sustainability, or impact considerations into their investments.

Our strategy centers on our **people**. We've brought together exceptional professionals with different skills and backgrounds to create a vibrant, sustainable, multigenerational partnership. This culture has allowed us to pursue investment insight from across various realms of the global economy. To that end we have continued to gather expertise through our thematic research reports and webinars on a broad range of topics including the Energy Transition, the Creative Economy, Sustainable and Regenerative Agriculture, Quantum Computing & the Sustainable Development Goals, Racial Equity, Electric Vehicles, Water Strategies, and many more.

Pathstone's leadership team is committed to the pragmatism required to measure our own performance not only by financial results, but also by the depth and quality of our client service, the working environment we create for our people, and the relationships we foster in the local **communities** in our 17 locations across the U.S. In serving our clients, we firmly believe that highly motivated, empowered, and engaged people deliver superior service.

Finally, among the most notable developments at Pathstone is our 2022 designation as a Certified B Corporation. **B Corps** are for-profit companies that demonstrate the highest verified standards of social and environmental performance, transparency, and accountability to all their stakeholders—employees, vendors, shareholders, and the broader community. This ongoing commitment to honor the foundation upon which Pathstone is built reflects our view of true collaboration across Pathstone as we strive to create prosperity for generations to come.



# Amplifying Impact Through Client Service

Pathstone seeks to deliver advice and service that helps our clients achieve their goals in ways that align with their values and aspirations. For many of our clients, these priorities include creating positive environmental and social impact through their investments. Over the past two years, Pathstone has made significant strides in providing sustainable, values-aligned, and impact investment insights and solutions to clients who seek these services. Key related achievements are highlighted in this section.

## Enhanced Suite of Values-aligned and Impact Investment Offerings

### DELIVERED A GROWING OPPORTUNITY SET

Pathstone's investment research team continues to source and diligence an increasing number of investment options to help interested clients align their portfolios with their values and impact goals. Today we offer 85 approved, open fund strategies across asset classes that integrate sustainability and impact in some capacity; 48 of these strategies exhibit intentional impact in addition to integrating material ESG risks and/or opportunities into investment decisions. This represents 43% of our total approved active manager platform.

Out of these 85 strategies, Pathstone selects our top recommendations across asset classes to constitute our Impact Reference Portfolio for clients seeking an integrated portfolio approach to supporting impact outcomes. This portfolio is constructed by working with our Strategy Committee to create allocations based on economic trends, valuations, and positioning, among other factors. Compared to the MSCI ACWI, the equity portion of the portfolio has better performance along several important impact metrics available today, including carbon emissions and water usage, as shown below. We look forward to tracking and further improving on these metrics in the future.

Fund	Carbon Intensity (Metric Tons CO <sub>2</sub> e / \$1M USD Revenue)	Water Withdrawal Intensity Average (Cubic meters water withdrawn / \$1M USD Revenue)
Pathstone Impact Reference Portfolio	96.42	13,682.13
MSCI ACWI	193.68	22,190.50
% Difference	50% less intense	38% less intense

## Expanded Client Services

### Willow Street Group: Taking Client Service to the Next Level



Planning around trustee and fiduciary services has always been a crucial step in multigenerational stewardship and has only increased in importance and criticality. As Pathstone continues to grow and evolve, we constantly strive to perfect our client experience and meet the multigenerational promise that we make to each family. The ability to provide in-house trust services has been a clear need and is a necessary piece of the puzzle.

To satisfy this need, Pathstone combined forces with **Willow Street Group** in December 2022. Willow Street is a Wyoming-based, independent, partner-owned trust and fiduciary services firm. The addition of Willow Street brings not only an extension of our offering but seasoned leadership and expertise that will continue to add depth to our firm.

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### Advisor Partners: Customizable Tax-Managed Direct Index Strategies



At the heart of values-aligned and impact investing is the need for customization. Pathstone has long believed in the power of customization combined with low-cost, tax-efficient investment solutions for all clients. In July 2022 we strengthened our commitment to this approach by acquiring technology firm Advisor Partners (AP). AP provides advanced customized investment implementation solutions focused on tax optimization and

automation. The firm has a rich history: It was founded by Andrew Rudd, the creator and founder of Barra, one of the original software providers of investment risk analytics and trading solutions in the industry. With over a decade of experience customizing client portfolios, including those with sustainable and values-based investment guidelines, AP is well equipped to offer clients improved customization options powered by Pathstone's leadership in impact investing.

- Advisor Partners delivers what we believe to be market-leading tax alpha (i.e., after-tax outperformance) by using proprietary technology to optimize and loss-harvest portfolios more often than competitors' tools, allowing AP to take advantage of short spikes in volatility.
- Advisor Partners' strategies are customizable, with the ability to replicate global indices with account level customizations for individual security restrictions, sustainable and values-based screens, proxy voting, and tax guidelines.
- Powered by data from MSCI, Sustainalytics, RepRisk, and As You Sow, and with insight from Pathstone's impact experts, Advisor Partners offers clients a wide range of customization options to align portfolios with specific missions or values.

Integrating the vision, technology, investment expertise, and operational sophistication of Advisor Partners will enhance Pathstone's ability to provide innovative, highly customized, and sophisticated ways to implement values alignment for our clients.

## Cornerstone Capital Group: Deep Impact Expertise



In 2021, Pathstone acquired Cornerstone Capital Group. Cornerstone sought to help investors achieve targeted environmental and social impact goals without sacrificing investment performance. The firm’s founder and CEO, Erika Karp, has been a champion of using the tools of finance to support a more sustainable and inclusive form of capitalism.

Over the course of her 25-plus years on Wall Street, she developed a deep belief in environmental, social, and governance (ESG) analysis as a critical input to investment decision-making. Erika now serves as Pathstone’s Chief Impact Officer. The Cornerstone team has added significant experience, thought leadership, and an innovative approach to impact measurement, the Access Impact Framework™. Several key initiatives highlighted in this report originated with Erika and the Cornerstone team.

## Explored Emerging Investment Themes

### Pathstone’s Thematic Research Committee



Pathstone launched the Thematic Research Committee to ensure Pathstone’s investment decision-making process is informed by robust research to identify significant emerging environmental, social and governance trends with investment implications. The committee, formed in 2021, proposes and selects topics, assigns authorship, and oversees the quality of the content. Selected output over the 2021-22 period includes:

<p><b>Reports:</b></p> <ul style="list-style-type: none"> <li>▪ <b>Investing Cash for Impact:</b> A Guide for Asset Owners</li> <li>▪ <b>Regenerative Agriculture:</b> Voices from the Field</li> <li>▪ <b>Quantum Impact:</b> The Potential for Quantum Computing to Change Everything</li> <li>▪ <b>Beyond Sustainability:</b> Carbon Negative</li> <li>▪ <b>Sacrifice Nothing:</b> Financial performance of sustainable and impact investments</li> </ul>	<p><b>Discussions:</b></p> <ul style="list-style-type: none"> <li>▪ <b>Health Beyond the Pandemic:</b> global health advocate Derek Yach</li> <li>▪ <b>Ukraine and the Age of Impunity:</b> David Miliband, International Rescue Committee President and CEO</li> <li>▪ <b>The Depth and Breadth of Impact Investing for Ocean Health:</b> Aquanaut and environmental advocate Fabien Cousteau</li> <li>▪ <b>Embracing the Gray:</b> Unilever’s Jostein Solheim on the complexities of corporate sustainability</li> </ul>
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The full suite of Pathstone thematic research and other ESG- and impact-related thought leadership can be found [here](https://www.pathstone.com/esg-analysis-impact-expertise/#thought-leadership).<sup>1</sup>

<sup>1</sup> (<https://www.pathstone.com/esg-analysis-impact-expertise/#thought-leadership>)

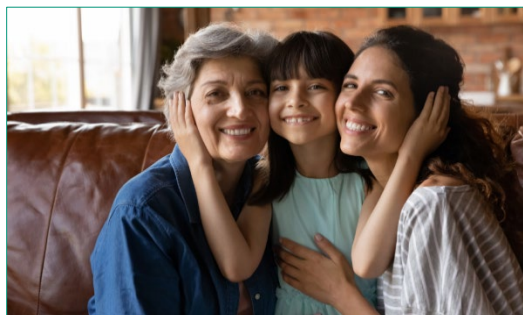
## Equipped Women and Next-Gen Clients with Financial Skills

### HerPath and FuturePath: Background and Achievements



Recent studies have found that women control more than half of U.S. personal wealth. Pathstone's **HerPath** initiative is dedicated to advancing women's financial knowledge, enabling them to be better informed and equipped to confidently make financial decisions. The group aims to create a welcoming space for women to come together, exchange ideas, collaborate, learn, and help each other grow. Through a series of interactive learning events, we provide our female clients an opportunity to network with one another, share experiences, ask questions and problem-solve.

For example, in 2021 HerPath hosted a discussion on [Courage](#), featuring the lessons our three speakers learned from the challenges of 2020, and how they used those lessons to empower themselves. We also hosted [Money Stories](#), dedicated to the lessons about money that shape women's financial lives. One of the HerPath initiatives in 2022 marked a return to in-person events with a "Vision Board" evening in our Bellevue, WA, office.



Multigenerational financial stewardship is at the core of Pathstone's mission. A proper introduction to impact investing, financial planning, estate planning, and tax planning ensures the next generation is ready to preserve and expand their family's legacy. The **FuturePath** initiative directly engages with the rising generation to equip them with the knowledge and skills necessary to act as responsible stewards of their family's wealth.

FuturePath pairs future firm leaders with the rising generation of clients to educate, provide a community of peers, and empower them to take an active role in their family legacy through shared learning, interactive virtual events, and peer engagement.

Over the past two years, FuturePath has hosted several relevant virtual gatherings focused on topics such as intergenerational communication regarding wealth and wealth planning; financial planning fundamentals; entrepreneurship; and real estate investment. Notably, we hosted [Succession Stories](#), with Pathstone co-chairman Steve Braverman offering his experience-based guidance, and [Bring More Intimacy...](#), another perspective on the all-important discussion of familial wealth.

## Contributed Expertise to Sustainable and Impact Investing Field

### Industry Sponsorships and Appearances

A key function of Pathstone's service to values-aligned and impact investors is to build and support the field. We contribute to the advancement of standards in corporate disclosure, ESG metrics, and impact measurement. We also promote broader understanding of the ways one can incorporate such considerations into portfolio design. Our leadership within the sustainable and impact investment community positions Pathstone to effect positive change. We have driven dialogue on industry developments; issues such as racial equity, gender lens investing, and wealth inequality; and the transition to a more circular economy.

Pathstone sponsored or appeared at a number of industry forums over the course of the past two years, partnering with organizations such as:

- [Confluence Philanthropy](#)
- [Humanity 2.0](#)
- [LeadersQuest](#)
- [Sustainable Agriculture and Food System Funders](#)
- [Sustainable Purchasing Leadership Council](#)
- [SALT](#)
- [Toniic](#)
- [US SIF](#)
- [World Benchmarking Alliance](#)

Pathstone experts also participated in conferences hosted by media organizations such as Barron's, Institutional Investor, Investment News, Reuters, and Worth.



Taken together, Pathstone's efforts help drive collaboration among asset managers, investors, and organizations, ultimately enhancing the quality and variety of investment solutions we can offer.

### Recognition

In 2022 Pathstone was ranked #3 on Forbes / Shook's inaugural list of America's Top RIA Firms 2022 based primarily on our best practices, firm culture, and client experience as well as quantitative data like revenue trends, assets under management, compliance records, and industry experience.

Pathstone ranked #17 on Barron's 2022 Top RIA Firms; this was Barron's 7th annual ranking of independent advisory companies and was based on assets managed by the firms, technology spending, staff diversity, succession planning, and other metrics.

Real Leaders selected Pathstone as one of the 200 Top Impact Companies for 2022. Real Leaders is a membership community for impact leaders with a global media platform dedicated to driving positive change.

The 2022 Private Asset Management (PAM) Awards, sponsored by With Intelligence, saw Pathstone recognized as ESG Advocate of the Year and "highly commended" in the Best ESG Investment Offering category. The ESG Advocate of the Year reflects Pathstone's thought leadership and innovation.

WealthBriefing's inaugural WealthForGood awards recognized Pathstone for "Best ESG Portfolio—Methodology and Performance, Americas." The judges cited Pathstone's "bespoke and tailored approach built on an internal baseline ESG reference portfolio which includes their best current recommendations across asset classes and subclasses." Pathstone was also recognized for "Best Nextgen ESG Initiative or Offering, Americas" in 2022. The judges were impressed by our firm's commitment to empowering the next generation through our FuturePath initiative and the multigenerational promise built into our company's mission.



## Engagement and Proxy Voting at Pathstone

In addition to contributing to positive environmental, social and governance improvements among corporations, research shows that shareholder engagement may also improve a company's financial performance. Pathstone has many ways to support clients that are interested in shareholder engagement.

### Filing/Co-Filing Resolutions

Pathstone partners with [As You Sow](#), a nonprofit organization that promotes environmental and social corporate responsibility through shareholder advocacy, coalition building, and innovative legal strategies. As You Sow helps Pathstone's clients use their ownership in a company to file shareholder resolutions on environmental and social issues without having to alter their underlying portfolio. Clients who meet SEC-mandated holding requirements and agree to hold their shares during the process can authorize As You Sow to use their stake in a company to support resolutions in which As You Sow is actively involved.

- **Example:** Working with Pathstone and As You Sow, a client is the lead filer for a resolution with a large global food company to require them to publicly disclose information on the use of pesticides in agricultural supply chains. Elements of this resolution will most likely either be agreed to by the company or will go to a binding vote of the shareholders.

### Aligned Proxy Voting Through Select Asset Managers

Many asset managers that Pathstone works with actively vote their proxies in alignment with environmental, social, and governance factors. Pathstone monitors and evaluates the votes of ESG-focused managers to track their proxy voting record and will engage managers in discussions regarding specific votes as needed to reflect clients' priorities.

- **Example:** We recently reviewed the proxy voting policies and votes of a client's passive and active public equity managers. We took this opportunity to reinforce with managers the importance of supporting shareholder initiatives for our clients using screened or sustainable strategies. Pathstone and the client concluded that the managers were all voting responsibly and in alignment with the client's values.

### Active Engagement

Many of the most effective ESG/impact asset managers have a deep commitment to working with portfolio companies to help them improve their business practices. We therefore track the specific ESG-related activities that managers engage in with companies. We provide clients with summaries of the specific engagements, and their outcomes, through our annual Access Impact Framework report.

- **Example:** A manager on Pathstone's platform recently urged banks to take action on several fronts: gun violence, indigenous peoples' rights with regard to fossil fuel projects in the U.S., applying the Equator Principles beyond developing countries, and respecting human rights by adhering to the UN Guiding Principles on Human Rights. This included engagements with JPMorgan Chase and PNC Financial urging them to adopt a more restrictive policy related to financing firearms manufacturers and credit merchant processing.



# Serving Our People & Our Communities

In addition to helping clients achieve their financial and impact goals through a holistic approach to investment advice and wealth management, Pathstone takes seriously our own impact on society and the environment.

In this section we highlight our efforts as a company both internally and in the communities where we live and work to operate with the best interests of all our stakeholders.

## Intensified Focus on Delivering Value to Staff

### Introduced “People Value Proposition” Methodology and Initiatives

Pathstone’s business strategy is firmly centered on our people. We believe we have a responsibility to provide value to our employees in exchange for the value they contribute to our firm’s success. We find that consideration of all stakeholder interests in our business strategy—including clients, vendors, our local communities, and our employees—is consistent with long-term success as a firm. Pathstone’s adoption of a PVP methodology in recruiting, developing, and retaining talent has yielded a number of employee-focused initiatives over the past two years, with more to come:

- **Employee-directed giving.** Each Pathstone employee received a \$100 “Gift4Giving” eGift, enabling them to donate to the 501c(3) charity of their choice.
- **Referral bonuses.** While Pathstone has maintained an employee referral program for years, we boosted the amount of the bonus to encourage team members to help attract top talent to the firm.
- **Enhanced parental leave and adoption reimbursement.** Any parent may now take 12-16 weeks of *paid* leave to care for a newborn or newly adopted child, with flexible terms of use for that time. Further, Pathstone will now reimburse a portion of adoption costs.
- **Pathstone mentorship program.** Pathstone has kicked off a formal mentorship program to create meaningful connections across the firm, help foster inclusion, encourage an exchange of ideas, and nurture a pathway for professional growth.
- **Formalized flexible working.** In responding to the coronavirus pandemic, Pathstone supported employees who wished to work remotely. In early 2022, our Executive Leadership Team took the decision to permanently support flexible work arrangements, including fully remote working, for all employees. Our Technology team undertook a survey of all staff to determine any home-office technology needs, and delivered the hardware, including new laptops, to support those who wish to work partly or fully from home.

## Formalized Commitment to Inclusion and Belonging

### Launched Diversity, Equity and Inclusion Council

To formalize our commitment to diversity, equity, and inclusion (DEI) throughout the firm, Pathstone launched a DEI Council in January 2021. The Council is led by members of our Executive Leadership Team and includes representation across roles, locations, seniority, race, and ethnicity. Its Guiding Principles are to have representation across our firm, ensure equality of opportunity, promote fairness in accessing information and resources, and champion a culture of belonging by inviting contributions and participation from all employees. It is a space in which members engage in respectful yet honest dialogue about ways in which Pathstone can truly embody our values. The DEI Council's mission statement is:

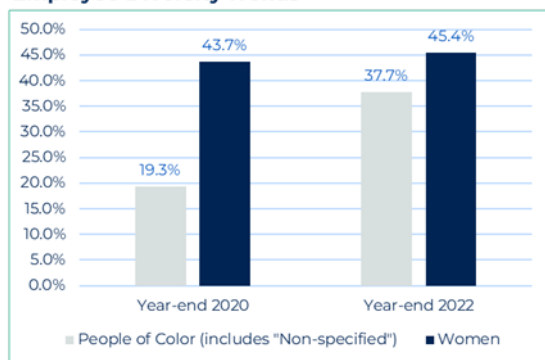
*The DEI Council will seek to encourage, equip and impact Pathstone's culture, practices, and people, as it relates to Diversity, Equity, and Inclusion. We will promote our efforts by facilitating a reverent exchange of ideas while increasing our awareness and cementing firm accountability. The Council, along with the support of the Executive Leadership Team, will serve as a catalyst for this work and set a strong example for all Pathstone employees.*

In 2021 the DEI Council engaged an external consulting firm to support our efforts. Both the DEI Council and the full Executive Leadership Council of Pathstone underwent in-depth training to explore DEI issues at the firm. Pathstone also brought on board a new Chief People Officer, Claudio Diaz, whose remit includes concrete action to advance our embrace of diversity throughout the organization. In early 2022 we issued a confidential internal survey to employees on "opportunities and barriers," and we are currently in the process of translating the feedback into action plans.

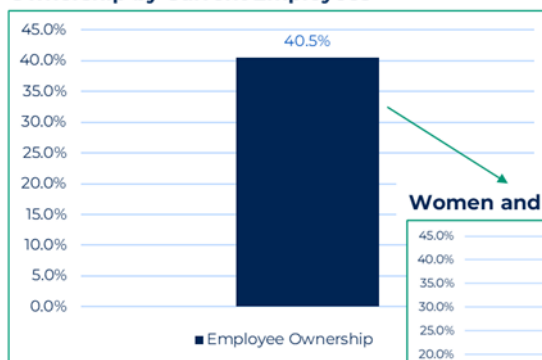
The Council also launched a Fireside Chat series, in which employees of varied backgrounds share their professional experiences in the context of that heritage. We commemorated Pride Month, Hispanic Heritage Month, and Black History Month in this manner.

Below we offer a glimpse of how our focus on diversity in recruitment has been progressing. We believe it's also worth noting the diversity among our employee shareholders:

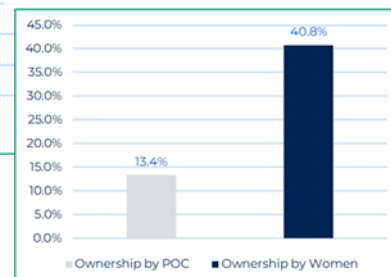
#### Employee Diversity Trends



#### Ownership by Current Employees



#### Women and POC as % Shareholders



## Fostered Our Culture of Education and Personal Growth

Pathstone is committed to supporting the successful career growth of employees through professional development and lifelong learning under our Learning & Development department. We aim to provide employees with every opportunity to find meaning in their work while promoting a sense of ownership. Our goal is to create an ecosystem of well-rounded, passionate employees.

### New Team Member Onboarding

Pathstone wants every new team member to be set up for success. Employees embark on a learning journey from the moment they walk into Pathstone. We have developed a rigorous training program for new hires. Throughout training, new hires are partnered with a Buddy – a dedicated resource to answer questions, provide shadow opportunities, and serve as a support system.

### Continuing Advisor Education

Targeted training to advance our advisors' skills is held quarterly. Trainings are based off feedback received from the advisor group on topics they feel are important to their growth. Further, Pathstone has defined best practices for each of our systems and processes. There are over 50 topics in our Advisor Manual to help guide our employees through transactions using best practice. Topics are added continuously and input from the advisor community is encouraged.

### Pathstone University

Pathstone University serves as a knowledge source for the entire firm. Pathstone University occurs monthly and is designed to provide relevant, timely, and interesting content to continue to develop our people.

In 2021–22 we held 20 PathU events, covering topics such as:

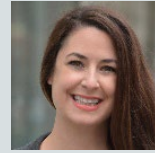
- Estate and Tax Planning for Founders of Venture-Backed Companies
- Cyber Attacks Targeting Private Wealth Clients
- Leveraging Thematic Research in Working with Clients and Prospects
- Working with Foundations and Endowments
- Year-End Philanthropic Considerations for Charitable Giving

### Path2Succeed

Investing in the education of our senior professionals through a voluntary and collaborative enrichment program allows Pathstone to successfully serve future generations of clients. The Path2Succeed program helps professionals better understand and map their unique path to success, aligning their professional and personal goals while fostering meaningful connections with colleagues. The framework is constructed with three broad pillars in mind: Education, Experience, and Engagement.

## Community Service Highlight

**Lauren Finn, CFP®** is the Co-Director of Learning and Development located in Pathstone's Boston office where she leads the firm's efforts to assimilate employees into Pathstone's culture through training and education. Lauren has a real passion for helping others and "find(s) joy in helping others grow and learn."



In 2021, through her work with the Boston Estate Planning Council (BEPC), Lauren helped found a Financial Literacy Program for women inmates at Suffolk House of Corrections, designed to empower women to be better equipped to make sound financial decisions upon their release. This initiative was brought to Lauren as Chair of the Community Engagement Committee by State Representative Russell Holmes where he has been teaching a financial literacy program in the men's division of SHOC for the past nine years. Lauren and other BEPC volunteers currently host two cohorts each year comprised of four 90-minute classes and hope to expand their programming to four cohorts per year. Classes are intended to cover a fundamental financial topic such as cash flow, budgeting, credit and borrowing, asset protection, risk management, professional development, and more. Lauren says that that her volunteer work at Suffolk House "has been humbling and tremendously rewarding." The women are engaged and ask thought provoking questions such as "how can I gain financial independence and stop living paycheck to paycheck," "how can I be prepared to purchase my first home," and "what tools do I need to successfully start my own business." Lauren previously served as the Chair, Co-Chair, and Vice-Chair of the Community Engagement Committee (through BEPC), where she led advocacy initiatives for a rotating set of three non-profits in the Greater Boston area.

Source: CFP Board Pro Bono Newsletter

<https://cfpb.informz.net/informzdataservice/onlineversion/pub/bWFpGluZ0luc3RhbmNISWQ9MTA4Njg5Nzc=>

## Employee-driven Impact

### PathstoneCares

PathstoneCares seeks to make a positive and sustainable impact on Pathstone's greater ecosystem: our employees, our communities, and our environment. This committee strives to support sustainable and healthy change by, promoting philanthropy and community service providing innovative opportunities for personal and professional growth, encouraging healthy lifestyles, and taking actions that result in a healthier and more livable environment, such as championing the efficient use of resources.

Initiatives include:

- Moving away from disposable water bottles and raising awareness to reduce waste from single-use items (the Water Bottle challenge);
- Promoting volunteering and charitable donation drives through the #emPATHy initiative and food and clothing drives);
- Internal communications on the environment (Earth Day and Easy Green Tips);
- Financial literacy focus with social media posts on topics like budgeting, 401k investing for retirement, credit scores, etc.;
- "FitPath" initiatives and challenges to get employees moving and active, often with a charitable connection;
- In collaboration with our human resources team, the committee contributes to employee training modules and mentoring to promote connectivity and learning opportunities.



# Amplifying Impact for Clients: Behind the Scenes

This section of our Impact Report summarizes Pathstone’s thinking and process around ESG analysis. It also highlights our approach to integrating sustainability goals or values alignment in a total portfolio context for clients who seek impact.

## Pathstone’s Impact Committee

Pathstone’s Impact Committee brings together the activities of our Investment Research, Client Advisory, and Operations teams to support Pathstone’s sustainable and impact investing services. It helps to propel Pathstone forward as a continued thought leader and innovator. The committee’s mandate is:

- Identify areas for continuous improvement in Pathstone’s values-aligned and impact investment capabilities, including account structures, investment strategies, reporting frameworks, and client communications.
- Foster an internal culture of dialogue on areas of client interest or concern; amplify Committee messages and solicit feedback regarding investment solutions; encourage and equip advisors to engage clients in discussion as appropriate.
- Together with the Thematic Research Committee and Investment Committee, shape research priorities.
- Provide information and education on impact issues, encompassing internal education and consulting, client consultation or targeted education, and broader client/prospect outreach.

The impact committee has played an important role in formulating our approach to the philosophy and methods we use at Pathstone to deliver impact for clients, as outlined in this section.

## Our Philosophy on the Use of ESG Criteria in Investing

The term “Environmental, Social and Governance (ESG)” describes an analytical approach. It is neither an investment style nor an asset class. Rather, it is an integral part of a comprehensive investment research discipline. There is actually no such thing as “ESG Investing.” There is, rather, an *investment research discipline* called “ESG Analysis.”

The focus of ESG analysis is to:

- Identify and evaluate material environmental and social considerations that may influence long-term investment performance; and
- Assess whether the relevant governance structures within asset managers, strategies, and underlying public or private investments are properly equipped and motivated to govern effectively in the context of those considerations.

ESG analysis enhances the predictive insights provided by fundamental financial analysis. It does not imply a value judgement. Nor is it inherently political. Again, it is a discipline required for investment research seeking to support the analysis of risk-adjusted returns.

## Integration of Material Factors

As a fiduciary and steward of our clients' assets, Pathstone believes it is critical to take a thoughtful and well-researched approach to making investment decisions. Our approach considers quantitative data, engages in qualitative evaluation, and leverages a deep and experienced team to make decisions.

Each investment decision requires an investor to form a judgement based on the available information. But not all information has equal value. One needs to sift through the noise and identify the factors that are material to driving investment outcomes. ESG analysis represents an essential part of the mosaic of investment research, and thus an important aspect to the execution of our fiduciary duty.

For example, as [our thematic research has highlighted](#), climate change represents a systemic financial risk to many sectors of the global economy. Accordingly, we analyze the exposure of our managers to risks and opportunities across sectors and securities in their portfolios. With respect to consumer products companies, we seek insights regarding packaging and [water stewardship](#), which are material to business models. We have also explored the potential for [quantum computing](#) to transform society as we know it, which in turn implies the need to understand governance issues such as data privacy and regulation on artificial intelligence across sectors ranging from technology to financial services. In each case we consider those factors that have a material impact on economic and financial outcomes.

To reiterate: As advisors, our approach to identifying material information encompasses traditional fundamental financial data, macroeconomic factors, thematic research, and environmental, social and governance (ESG) considerations. The importance of each of these factors in an investment decision will vary depending on the investment, but no decision is made using just one set of data.

We believe this focus on materiality is critical to avoiding unnecessary risks and identifying market opportunities within sectors or regions. Along with our team and the investment managers with whom we partner, on behalf of our clients we endeavor to examine and uncover these risks and opportunities every day.

## Our Scoring Methodology

Pathstone has developed a proprietary ESG scoring framework for our investment manager research and for reporting and communications with clients who have an interest in such scoring.

Datasets are available from a number of outsourced providers that reflect ESG disclosure; ESG performance; industry relative rankings based on performance and disclosure; and absolute performance on specific indicators. However, each of these datasets has limitations in terms of the insight they offer at scale as well as issue and asset class coverage. Most of them also have biases, primarily to large capitalization companies and markets in developed countries. Acknowledging these limitations, Pathstone developed a scoring framework for public equities that offers the most complete picture of company and portfolio level ESG disclosure and performance. Scoring involves analyzing stock specific E, S & G ratings in a manner that places a modest overweight on the environmental score, with an equal weighting to social & governance factors. Scores are the security level. Pathstone will use the ESG scores of underlying companies, combined with the weight of such companies within a portfolio, to create a weighted average ESG score. This score is available as part of our reporting system for those clients who have an interest.

## Annual Asset Manager Survey

Pathstone's process also involves surveying firms that manage money for our clients to determine "intentionality," namely whether managers actively integrate ESG analysis or impact considerations into their investment processes. We include questions regarding each manager's integration of ESG analysis into their investment process, their proxy voting and shareholder engagement, their firm's culture, and their approach to diversity, equity, and inclusion. The survey 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.

## Results Measurement and Reporting

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 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.

## Issue Area Analysis

Clients often seek to avoid certain issue areas through negative screening and may choose to tilt towards positive areas. Such issue areas may include companies with fossil fuel reserves or tobacco on the negative side, or exposure to renewable energy on the positive side. Pathstone's Issue Area Analysis of portfolio holdings utilizes a comprehensive database from a leading ESG data provider to assemble comparisons which allows the client to better understand the exposures in the portfolio along the dimensions of issue areas. It allows clients to "know what they own", and act accordingly.

## Impact Investing in a Total Portfolio Context

Pathstone structures portfolios based expressly on client needs and objectives. We employ the traditional principles of diversification with the goal of achieving the highest possible return while limiting the inherent risks associated with securities-based investing. Fiduciary duty is our foremost priority in considering any investment opportunity for a client.

The analysis of material environmental, social, and governance issues can help identify stronger, more resilient investment opportunities, reducing risk over the long term. In addition, the goals of financial performance and demonstrable impact can be achieved in a total portfolio context.

Pathstone takes a nuanced approach to sustainable and impact investing. We consider many themes to be inextricably linked, requiring system-wide solutions. For example, we do not believe we can have gender equality without addressing the access to capital, housing, education and health needs of women around the world. Similarly, investing through a racial equity lens entails a multifaceted approach, as highlighted in our report [Investing to Advance Racial Equity](#). And we do not believe we can have sufficient action on climate without responsible consumption.

## Pathstone's Access Impact Framework

For clients who have interest, Pathstone offers our Access Impact Framework™ (AIF) methodology to illustrate portfolio alignment in support of the UN Sustainable Development Goals. The framework links the Sustainable Development Goals to investment activities through a focus on access — access to the natural, human, and economic resources that will create a more regenerative and inclusive world.



## The Case for Aligning Portfolios with the Sustainable Development Goals

In 2015 the United Nations introduced its 2030 Agenda for Sustainable Development and, with it, 17 Sustainable Development Goals (SDGs). The SDGs represent a shared blueprint for peace and prosperity for people and the planet. They are a call to action for all stakeholders – governments, civil society, international organizations, the private sector and individuals – to align their activities to support the 2030 Agenda.

Each of the 17 SDGs is further refined by targets that can be more readily translated into actions. These targets highlight the interconnected nature of the goals: for example, strategies to achieve the goal of ending poverty are intertwined with strategies that improve health and education, reduce inequality, and spur economic growth, all while tackling climate change and working to preserve our oceans and forests.

Through an in-depth analysis of the underlying social, environmental, and economic dynamics of the SDGs, our team identified an important common denominator: access. In this context, we define access as the ability of individuals and societies to achieve desired social, economic and environmental outcomes. Our analysis found that all 17 SDGs and many of the 232 underlying targets and indicators specifically cited the need for increased access to key social, economic, and environmental systems.

The concept of access provides a critical link between the Sustainable Development Goals, business activity, and investment opportunity. Our analysis identified 11 access themes that link the SDGs, as shown below.

### Access Themes – Making the SDGs Investable



#### Fair Treatment and Equal Opportunity

Access to equal opportunity and fair treatment, to prohibit discrimination and to promote the full realization of equal opportunity and protection from unfair treatment.



#### Affordable, Sustainable and Modern Energy

Access to affordable, reliable, sustainable and modern energy, including: universal access to clean-combusting cooking fuels and stoves, and rural electrification.



#### Financial Services

Access to low cost, quality financial services products to improve financial options for low to moderate income people who lack access to financing options suitable to their needs.



#### Clean Water including Sanitation and Hygiene

Access to improved, safe and clean drinking water sources that are protected from outside contamination, and access to proper sanitation and hygiene facilities.



#### Healthcare Services

Access to universal health coverage, including access to quality essential healthcare services, to safe, effective, quality and affordable essential medicines and vaccines for all and to affordable healthcare insurance where available.



#### Clean Air

Access to clean air, including products and services aimed at the reduction of the health and economic risks, and negative environmental impacts, of pollution.



#### Telecommunication Systems

Access to key technology and communications systems for all, including those in rural and emerging markets.



#### Adequate Housing and Living Conditions

Access to safe, secure, habitable and affordable housing and adequate living conditions for all.



#### Education

Access to inclusive and quality education for all, including employment training and continuing education



#### Mobility and Safe, Affordable, Accessible and Sustainable Transportation

Access to safe, affordable, accessible & sustainable transport systems for all, including: improving road safety, expanding public transport and connecting rural and urban areas.



#### Sustainable Sources of Food and Nutrition

Access to food security through the physical, social and economic access to sufficient, safe and nutritious food.

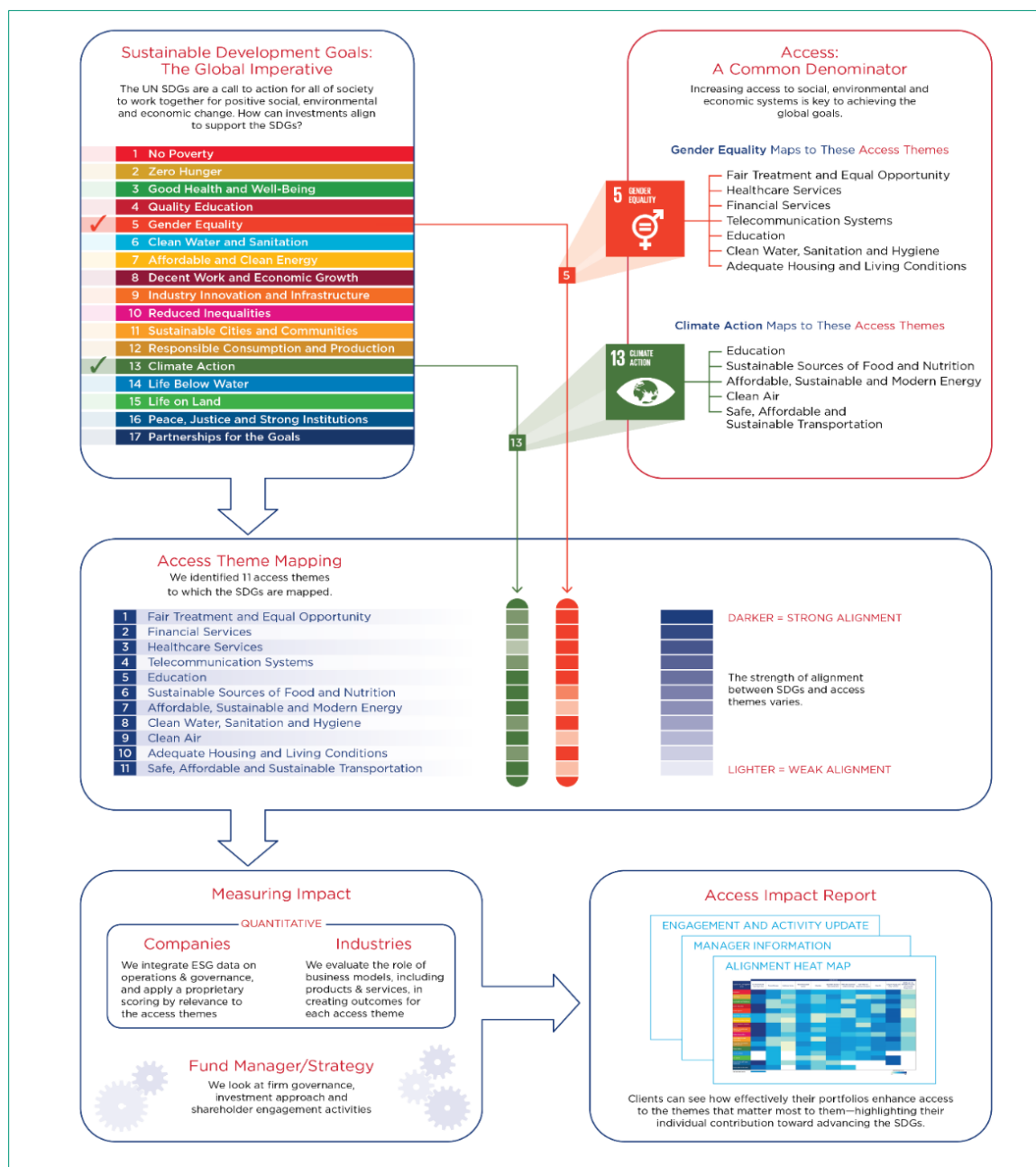
## Methodology Snapshot

Pathstone's AIF incorporates company-level ESG metrics with proprietary industry and manager-level analysis to derive insight into the alignment of investment portfolios with our access themes, and thus in turn with the Sustainable Development Goals.

The final piece of the framework incorporates the company, industry and manager analyses into a total portfolio report. This report shows clients how their portfolios contribute to increased access in support of the achievement of the SDGs.



## Access Impact Framework at a Glance



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## **Disclosure**

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