ESG *Matters*
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Pax World Investments

Sustainability is Alive and Well – and Moving Forward

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For those of us committed to sustainability, 2016 was a year of drama. There were some great highs, including the entry into force of the Paris Agreement, in which most countries committed to reduce greenhouse gas emissions. And then there was the election, which brought climate skeptics into senior Administration positions.

We understand how important public policy can be to sustainability, but we also understand its limitations. Our own commitment to sustainability in investment is not diminished by policy headwinds. For example, Pax filed or co-filed shareholder resolutions with ten companies for the 2016 shareholder season, concentrating on two key aspects of sustainability: gender equality and climate change. For this year's shareholder season, we have filed or co-filed 11 resolutions, again on the same two key topics.

And even though the season has not really begun yet, we've already been able to withdraw one gender pay equity resolution after reaching an agreement on a way forward with one company. We will likely be able to withdraw others as the season progresses, just as we were able to withdraw half our resolutions last year.

This kind of progress may sound laborious, but many, if not most, of the companies we've engaged with on these topics are some of the largest in the world. And when those companies commit to gender pay equity or agree to establish targets for greenhouse gas reduction, it helps to create pressure on others—including the thousands of companies in these companies' supply

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KEY TAKEAWAYS

- » Pax World's commitment to sustainable investing is not diminished by policy headwinds.
- » Gender equality has become a mainstream economic topic and recognition among investors that gender equality has financial value is growing quickly.
- » Financial markets are increasingly aware of climate risks and opportunities and are integrating that information into investment decisions.

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chains—to step up as well. There is a halo effect to this kind of engagement that's difficult to quantify, but real nonetheless.

When I first started engaging with companies on board diversity, the two typical polite responses I got were, *"Okay, but can you prove to me that women will make effective board members?"* and *"We are committed to diversity, but there aren't enough qualified women available."*

Times have changed.

Pax has been able to withdraw *every* resolution we have ever filed with companies on board gender diversity because we were able to reach agreements with companies to include diverse candidates for every director search. Several of the companies we've engaged with have added women to their boards. Our record on gender pay equity is similar, though this is only the second year we've focused our engagement efforts on that topic.

Why the success? Because both issues—and gender equality more generally—have become mainstream *economic* topics, and the recognition among investors that gender equality has financial value is growing quickly. Yes, in some countries, policy has also been a tailwind, especially countries that have statutes requiring gender diversity on boards (which is not the case in the U.S.). The thing that's driving gender equality, in terms of board and executive suite representation as well as pay equality, is not so much policy as economics. Companies with more women in decision-making roles do better financially, according to numerous studies, as well as our own experience and analysis. In short, the market recognizes the importance of gender equality.

Similarly, financial markets are increasingly aware of and integrating climate risks and opportunities into investment decisions. President Trump has vowed to kill the Clean Power Plan, and that might happen. But the main thrust of that plan—reducing dependence on coal to produce electricity—has been underway in the U.S. for almost a decade, and there is widespread agreement among financial pundits that coal's demise was market-driven, not policy-driven. Meanwhile, renewable energy continues to constitute the majority of new capacity added, and wind and solar, in particular, are increasingly cost-competitive with fossil fuels. Why? Not because of subsidies, but because of technology.

In short, sustainability is alive and well, and our own commitment to advancing it, using the tools we have as investors, is stronger than ever.

Pax World Management LLC

Pax World Management LLC, investment adviser to Pax World Funds, is a pioneer in the field of sustainable investing. Pax World integrates environmental, social and governance (ESG) research into its investment process to better manage risk and deliver competitive long-term investment performance. For over 45 years, Pax World has made it possible for investors to align their investments with their values and have a positive social and environmental impact. Today, its platform of sustainable investing solutions includes a family of mutual funds, as well as separately managed accounts.

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