

# Paradigm Shifts in Investing: Climate Change and Impact

by Julie Fox Gorte, Ph.D., Senior Vice President for Sustainable Investing

According to Wikipedia, a paradigm shift is a “profound change in a fundamental model or perception of events.” Right now, we’re in the midst of two paradigm shifts: the impact of investments and climate change.

## Investing for Impact

We are experiencing a significant change in how most people think about the impact of their investments, which for most of us is in the context of a retirement plan. In the past, a lot of people either didn’t bother to consider the relationship between impact and investing, or they followed the accepted wisdom of many players on the financial markets: let us manage your money for you, and then if you want to do something charitable with the returns, that’s up to you. The prevailing wisdom was that if you tried to combine your wish for impact with the management of your portfolio, you would sacrifice returns.

If that was ever true, it’s certainly not now. Of course, there are always going to be funds that outperform and underperform, but there is substantial and robust literature, spanning decades, showing that sustainable investing routinely performs as well as, and sometimes outperforms, non-ESG approaches. We’ve collected hundreds of these studies, and provide links to some of the most useful and interesting ones on the Pax World website.<sup>1</sup>

It’s also noteworthy, and not coincidental, that our own Pax Ellevest Global Women’s Index Fund outperformed its benchmark, the MSCI World Index, for the two-year period ending June 30,

## KEY TAKEAWAYS

- » We are experiencing a significant change in how most people think about the impact of their investments and about their role in mitigating climate change.
- » Efforts to advance impact for sustainability and avoid catastrophic climate change are long-term propositions—that need to start now.
- » We believe that sustainability has a lasting effect that often outweighs political and economic events.

CONTINUED

<sup>1</sup> <http://paxworld.com/about/sustainable-investing>



**Julie Fox Gorte, Ph.D.**, Senior Vice President for Sustainable Investing, oversees environmental, social and governance-related research on prospective and current investments as well as Pax’s shareholder advocacy and work on public policy advocacy. Prior to joining Pax, Dr. Gorte served as Vice President and Chief Social Investment Strategist at Calvert. Her experience before she joined the investment world in 1999 includes nearly 14 years as Senior Associate and Project Director at the Congressional Office of Technology Assessment, Vice President for Economic and Environmental Research at The Wilderness Society, Program Manager for Technology Programs in the Environmental Protection Agency’s policy office and Senior Associate at the Northeast-Midwest Institute. Dr. Gorte received her Bachelor of Science in Forest Management at Northern Arizona University and a Master of Science and Ph.D. from Michigan State in resource economics.

2016.\* We don't think that's happenstance: research indicates that better representation of women in decision-making roles—boards and executive management—is positively and significantly linked to better financial performance. Links to some of the studies that validate that notion are on Pax Ellevest's website as well.<sup>2</sup>

So, not only is sustainable investing providing competitive returns, but the impact we generate can be had in any strategy, not just in private equity, the taskbar where most people pin “impact investing.” Last year, we filed a shareholder proposal at Apple, asking the company to report on pay ratios by gender and disclose policies regarding closing the gender pay gap. We were able to withdraw that shareholder proposal after Apple committed to explore specific actions the company could take to address pay equity. And at Apple's Annual Meeting in February, CEO Tim Cook announced the results of the company's gender pay assessment and stated that the company is committed to closing the pay gap. *That is impact.* Would it have happened if we hadn't urged it? Maybe—but I don't think that would have happened this year. We fully expect that impact to extend beyond Apple: we also cofiled similar resolutions at eBay, Inc., and Amazon.com Inc., with Arjuna Capital and saw similar results. As additional large, leading companies make this commitment, it will be harder for anyone else in their industry—or indeed anyone else—to resist.

## Climate Change

Climate is another paradigm shift, not just in investment, but for the entire planet. This year marks a sad milestone in climate change: the first species extinction attributable to climate change. The world may not be rocked by the loss of the Bramble Cay melomys, but the implication is far greater: this is the kind of peril we create when we knowingly continue to emit greenhouse gases. And that's why we filed or cofiled shareholder resolutions at Verizon Communications, Inc., Nucor Corp., Duke Energy and American Electric Power (AEP) asking that the companies report to shareholders on policies and progress toward more sustainable models of business all aimed at reducing our impact on the climate.

The specific “asks” were different for the different companies—at AEP, for instance, we asked the company to assess the risks that its coal assets will be stranded as a result of regulatory initiatives aiming to keep future climate change below 2° C. At Duke Energy, we asked that the company assess the impact of changes in the electric utility industry aimed at limiting future climate change, particularly with regard to distributed generation and energy efficiency.

Pax cofiled both of these resolutions, one with As You Sow and one with the Nathan Cummings Foundation. All three of us are part of a broad coalition of investors—asset managers, asset owners, and nonprofits—working to advance sustainability through shareholder engagement.

CONTINUED

<sup>2</sup> <http://www.paxellevest.com/resources/gender-research>

\* The annualized returns for the Pax Ellevest Global Women's Index Fund – Individual Investor class as of 9/30/2016 were, 1 year: 10.47%, 2 year: 2.97%, 5 year: 10.93%, 10 year: 3.21%. The annualized returns for the Pax Ellevest Global Women's Index Fund – Institutional class as of 9/30/2016 were, 1 year: 10.77%, 2 year: 3.24%, 5 year: 11.22%, 10 year: 3.48%. The returns for the MSCI World Index as of 9/30/2016 were, 1 year: 11.36%, 2 year: 2.80%, 5 year: 11.63%, 10 year: 4.47%. The returns for the Pax Global Women's Leadership Index as of 9/30/2016 were, 1 year: 11.55% and 2 year: 3.81% annualized. **Total annual Pax Ellevest Global Women's Index Fund operating expenses, gross of any fee waivers or reimbursements, for Individual Investor Class and Institutional Class shares are 0.90% and 0.65%, respectively, as of 4/1/2016 prospectus.** Performance data quoted represent past performance, which does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For most recent month-end performance information, visit [www.paxworld.com](http://www.paxworld.com).

That is coordinated by Ceres, a non-profit organization advocating for sustainability leadership, of which Pax has long been a member. One of the best ways to advance impact is in cooperation with other investors, and while we all wish that impact was faster in coming, we all also know that everything we're doing is at least moving things in the right direction. Without our efforts, it's business as usual (BAU). And with respect to climate and other sustainability issues, the BAU scenario is unpleasant at best, and more likely increasingly disastrous.

The efforts to advance impact for sustainability and avoid catastrophic climate change are long-term propositions—that need to start now. There's a reason that Pax's motto is "For Tomorrow." While we are prepared to deal with the fallout of major economic developments, we also know that sustainability has a lasting effect that often outweighs political and economic events.

---

### 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.

The statements and opinions expressed are those of the author as of the date of this report. All information is historical and not indicative of future results and subject to change. This information is not a recommendation to buy or sell any security.

---

**You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. For this and other important information, please obtain a fund prospectus by calling 800.767.1729 or visiting [www.paxworld.com](http://www.paxworld.com). Please read it carefully before investing.**

**An investment in the Pax World Funds involves risk, including loss of principal. Past performance is no guarantee of future results.**

**RISKS: Equity investments are subject to market fluctuations, the fund's share price can fall because of weakness in the broad market, a particular industry, or specific holdings. The Fund does not take defensive positions in declining markets. The Fund's performance would likely be adversely affected by a decline in the Index. Investments in emerging markets and non-U.S. securities are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation, intervention and political developments. There is no guarantee that the objective will be met and diversification does not eliminate risk.**

As of 9/30/16, Apple, Inc. was 3.2% of the Pax ESG Beta Quality Fund and 1.9% of the Pax Balanced Fund. American Electric Power was 0.2% of the Pax Ellevest Global Women's Index Fund. Duke Energy Corporation was 0.3% of the Pax Ellevest Global Women's Index Fund. Verizon was 0.1% of the Pax Balanced Fund, 2.0% of the Pax ESG Beta Quality Fund, and 1.3% of the Pax Ellevest Global Women's Index Fund. Nucor Corporation was not held by any Pax World Fund. Holdings subject to change.



Pax World Investments

**Pax World Investments**  
30 Penhallow Street, Suite 400  
Portsmouth, NH 03801  
800.767.1729  
[info@paxworld.com](mailto:info@paxworld.com)  
[www.paxworld.com](http://www.paxworld.com)

Separately managed accounts and related advisory services are provided by Pax World Management LLC, a federally registered investment adviser. ALPS Distributors, Inc. is not the distributor for Pax World's separately managed accounts.

Copyright © 2016 Pax World Management LLC. All rights reserved. Distributor: ALPS Distributors Inc.: Member FINRA. ALPS Distributors, Inc. is not affiliated with Morningstar Investment Management.