

Making an Impact: Investing in the Transition to a More Sustainable Economy

by Bruce Jenkyn-Jones, Co-Head of Listed Equities, Impax Asset Management

Why environmental markets?

The drivers of environmental markets are deeply rooted and continue to gather momentum. Population growth, increasing urbanization, climate change, environmental policy and regulation, and inadequate infrastructure are profoundly shaping global markets. These trends are driving a transition towards a more sustainable global economy. Many are interested in making a positive impact on the environment and are increasingly concerned about climate change. One aspect of this is a growing motivation among investors to align their investments with their personal values.

Measuring environmental impact

Impact investing has a positive intention built into the investment process and ideally the extent to which the intention is fulfilled can also be measured. The primary objective of the **Pax Global Environmental Markets Fund (PGRNX)** is to provide strong financial returns by focusing on “environmental solutions providers” for the growing environmental issues we face. The Fund does not invest in fossil fuel companies but across resource optimization and environmental markets, which include the renewable energy, energy efficiency, water, waste/resource recovery and sustainable food and agriculture sectors. Only companies that generate at least 20% of their revenue from these markets are eligible for investment. In practice, this market exposure hovers around 50%.

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KEY TAKEAWAYS

- We have developed a methodology for measuring the Pax Global Environmental Markets Fund's positive environmental impact.
- The Fund, with net positive CO₂ impact, can make a meaningful contribution to CO₂ emissions reductions as well as making a significant impact through water saved and treated, renewable energy generated and waste recycled by investments in environmental solution providers.
- By providing quantitative evidence of positive environmental impact, the Fund makes a compelling opportunity for investors seeking long-term financial returns, while also investing in the transition to a more sustainable economy.



Bruce Jenkyn-Jones is a Co-Portfolio Manager of the Pax Global Environmental Markets Fund. Bruce has been responsible for the management of the Fund since its inception in 2008 and has been a portfolio manager with Impax Asset Management, the subadviser of the Pax Global Environmental Markets Fund, since 1999. He serves as Executive Director and Co-Head of Listed Equities at Impax Asset Management along with Hubert Aarts, sharing responsibility for the development of the investment process, research and team development of all listed equity portfolios. Before joining Impax, Bruce worked as a utilities analyst at Bankers Trust and as an environmental consultant for Environmental Resources Management (ERM). Bruce holds a Masters of Business Administration from IESE (Barcelona), a Masters of Science in Environmental Technology from Imperial College and a degree in chemistry from Oxford.

We have developed a methodology for measuring the positive environmental impact for the Fund. We produce annual metrics for:

- Net CO₂ emissions (tons of CO₂ emitted less tons of CO₂ avoided)
- Renewable energy (MWh generated)
- Water (gallons provided, saved or treated)
- Materials (tons recovered, waste treated)

2016 Environmental Impact of the Pax Global Environmental Markets Fund

	Total Impact of the Fund	Impact of \$10m Investment
 Net CO ₂ emissions avoided	5,056 tons CO ₂	145 tons CO ₂
 Renewable energy generated	56,648 MWh	1,627 MWh
 Water provided/saved or treated	19.9 billion gallons	573 million gallons
 Materials recovered/waste treated	80,049 tons	2,300 tons

Note that this is representative of the portfolio holdings and AUM of this fund as of December 31, 2016. This data is based on the most recently reported annual environmental data for all holdings. Methodology has been assured by Ernst & Young LLP. For further explanation of Impax's impact methodology (which is based on equity value) please see www.impaxam.com/about-us/impact-investing. MWh stands for megawatt hour.

We believe these metrics are more appropriate than carbon footprinting data, which only reports the carbon emissions from the manufacturing process of a product and does not take into account the CO₂ emissions that the product could offset during its lifecycle. Accordingly, we report on *net* CO₂ emissions.

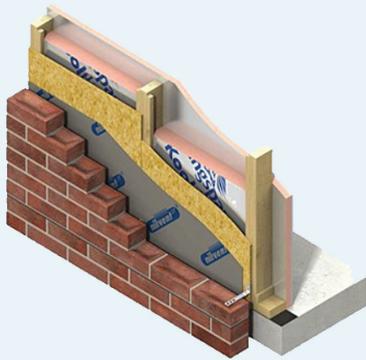
For example, a company that manufactures high-efficiency insulation provides an attractive net carbon emission solution. However, the CO₂ emitted during its manufacturing process may exclude it from “Low Carbon” portfolios.

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Example of How Net Impact can be More Relevant than Carbon Footprint

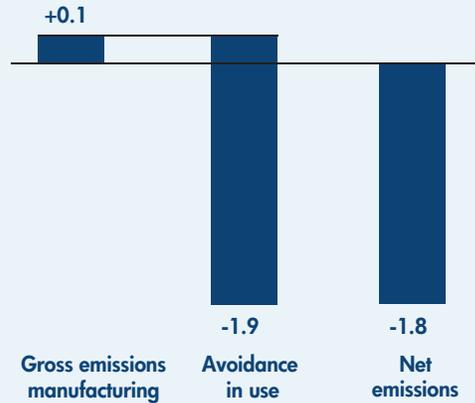
Company A

Company A's high-efficiency insulation provides an attractive **net carbon emission solution**.



CO₂ Emissions (M Tons/Year)

However, the carbon emitted by its manufacturing process would exclude it from many "Low Carbon" strategies.



Source: Impax Asset Management.

We collect impact data from investee companies. If the information we need is not disclosed, we engage with management to try to improve transparency. If the companies are unable or unwilling to provide this information, we use conservative estimates based on peer groups.

We always take a conservative approach to ensure that the lowest positive impact is used in our calculations. These numbers are assured by EY's sustainability auditing service.

One of our current largest holdings is JR East, the Japanese railway company. It is developing technologies to help reduce its CO₂ emissions, including hybrid trains, and is also, among other projects, building its own solar panel plants. Renewable electricity generation displaces electricity generated from fossil fuels and therefore has a positive impact on CO₂ emissions. The company has set aggressive emissions reduction targets for itself for 2030.

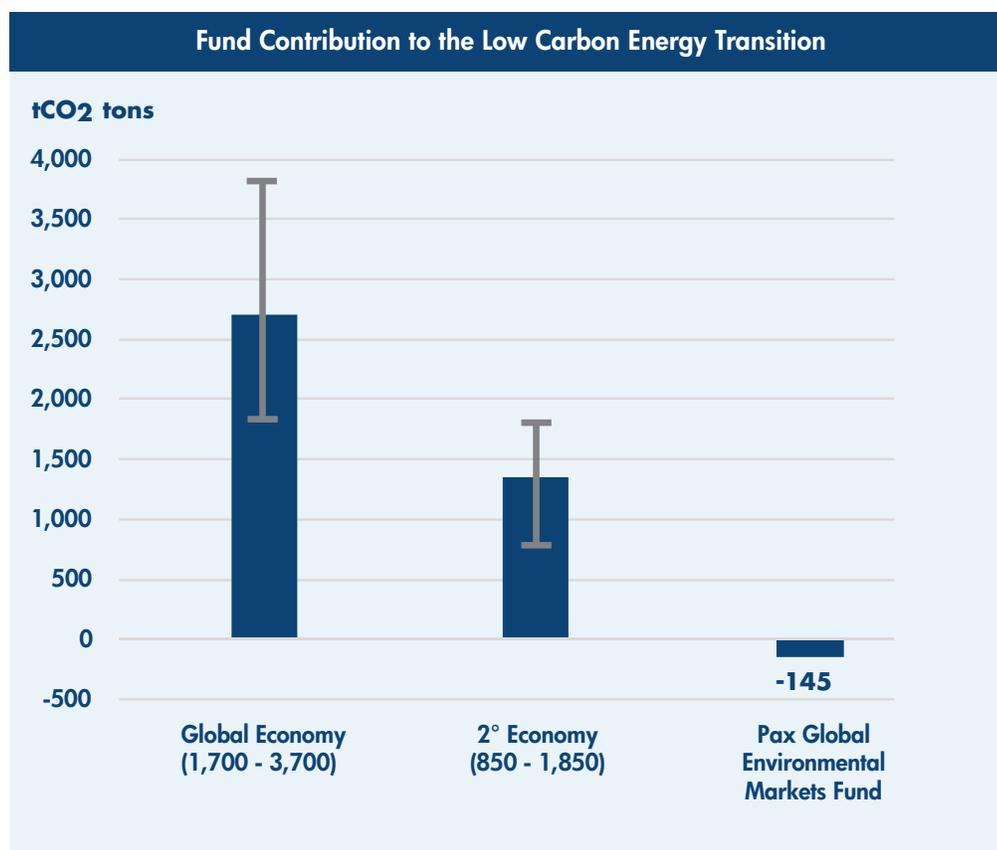
Another of our largest holdings, SUEZ Environment Co., is a French utility company, the business activities of which contribute a positive impact concerning water treatment and waste material recycled.

The environmental impact of our investments will always depend on the mix of underlying holdings in the Fund and is therefore subject to change.

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To understand the significance of this positive CO₂ emissions impact, we have considered this CO₂ avoidance metric in the context of the Paris Climate Agreement. This landmark agreement was signed by 195 countries and its objective is to limit the global temperature rise to 2°C above pre-industrial levels.

The chart below shows the impact of \$10 million investment in the Fund in 2016. The left hand bar represents the CO₂ produced from a \$10m investment in the global economy as it is today, which is producing an unsustainable level of CO₂ emissions. The middle column shows the impact of \$10 million invested in a '2°C economy', which still emits CO₂, but at a significantly lower level than we produce today. Finally, the right hand column represents the impact of \$10 million in the Fund. This clearly demonstrates that the Fund, with net positive CO₂ impact, can make a meaningful contribution to CO₂ emissions reductions as well as making a significant impact through the water saved and treated and waste recycled by investments in environmental solution providers.



Global Economy source: United Nations Framework Convention on Climate Change (UNFCCC), 2016. Aggregate effect of the intended nationally determined contributions: an update – synthesis report by the secretariat, McKinsey Global Institute, Haver, BIS, Deutsche Bank estimates, 2014, and IMF, National Central Banks and Statistical Offices, Thomson Reuters, 2014. Black bars reflect the range of estimates of value invested. Two degree Economy source: Impax Asset Management, 2017. For further explanation of Impax impact methodology (which is based on equity value) please see <http://www.impaxam.com/about-us/impact-investing>.

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We believe that the Pax Global Environmental Markets Fund is one of the first equity funds to provide quantitative evidence of positive environmental impact metrics. This, plus its focus on high growth companies, makes it a compelling opportunity for investors seeking long-term financial returns, while also investing in the transition to a more sustainable economy. The additional impact metrics are reassuring and confirm and quantify the Fund's positive intention.

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.

Impax Asset Management Ltd.

Impax Asset Management Ltd. is the Sub-Adviser of the Global Environmental Markets Fund. The Sub-Adviser is a wholly-owned subsidiary of Impax Asset Management Group plc, with investment offices in London (UK), Hong Kong, and New York. Impax Asset Management Ltd. manages and sub-advises funds that invest globally in the stocks of companies that are active in environmental and resource optimization markets, particularly in the energy efficiency, alternative energy, water infrastructure and technologies, pollution control, waste management and technologies, environmental support services sectors and sustainable food, agriculture and forestry. For more information, visit www.impaxam.com.

The statements and opinions expressed are those of the author 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. Please read it carefully before investing.

An investment in the Pax World Funds involves risk, including loss of principal.

RISK: 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. Emerging market and international investments involve risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles, economic or political instability in other nations or increased volatility and lower trading volume.



Pax World Investments

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Pax Global Environmental Markets Fund Top Ten holdings as of 3/31/17: SUEZ Environnement Co. SA 3.8%, Legrand SA 3.5%, Siemens AG 3.3%, Delphi Automotive PLC 3.2%, Ecolab, Inc. 3.0%, Thermo Fisher Scientific, Inc. 2.9%, Danaher Corp. 2.9%, East Japan Railway Co. 2.8%, Sealed Air Corp. 2.8% and WestRock Co. 2.6%. Holdings are subject to change.

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