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## Extreme risks: How to invest in a resource-constrained world

When thinking about risk, many investors may focus exclusively on economic, business or financial issues but a recent report from the global consulting firm Towers Watson ranks a food, water or energy crisis as the top extreme risk investors should be considering.<sup>1</sup> The firm also has advice for investors on how to hedge the risks associated with such potential environmental crises.

Towers Watson's analysis, *Extreme Risks 2013*, ranks food/water/energy crisis as the top risk among 15 extreme risks in five broad categories: economic, political, environmental, social and technological. The top 15 were ranked on the basis of their likelihood, their potential impact in terms of intensity and scope of their effects, and, finally, the uncertainty surrounding their likelihood and their impact.

"At the top of our ranking is a food/water/energy crisis," the report concludes. "This is primarily driven by our assessment that this is one of the most likely risks and that there is relatively little uncertainty attached to either the likelihood or the consequences."

### Crisis: Endurable or crushing

The firm, which has been examining rare but potentially devastating risks since 2009, developed a list of 30 extreme risks from which the top 15 were selected. In the 2013 ranking, the second highest assessment is assigned to economic stagnation and the third is global temperature change. While the impact of economic stagnation is considered "endurable"<sup>2</sup> by Towers Watson, the impact of food/water/energy and global temperature changes are considered "crushing."<sup>3</sup>

Towers Watson uses the research to better explore and understand risk and risk management. Investors can, too. One aspect of the analysis is to consider how to design more robust investment portfolios. To address the risk of food/water/energy crises, the firm



advises investors to "invest in securities providing exposure to resources in shortage or beneficiaries of substitution."<sup>4</sup> The report's only advice to investors to hedge global temperature change is to invest in "land (in the 'right' place)."<sup>5</sup> The limited investment options in this case may be one more affirmation of the need to reduce or stop the human activities that are driving temperatures higher (see related story "Pax World presses fossil fuel companies on reserves, climate change" in this issue).

### What you can do to hedge the risk

On a more positive note, investors do have choices among investment funds that target the kinds of companies and technologies that Towers Watson lists in its investment guidance for food/water/energy crisis. Among them is the **Pax World Global Environmental Markets Fund (PGRNX)**.

Pax World Global Environmental Markets Fund's investment objective is to seek long-term growth of capital by investing in environmental and resource optimization markets. The Fund seeks to take advantage of rapidly accelerating global

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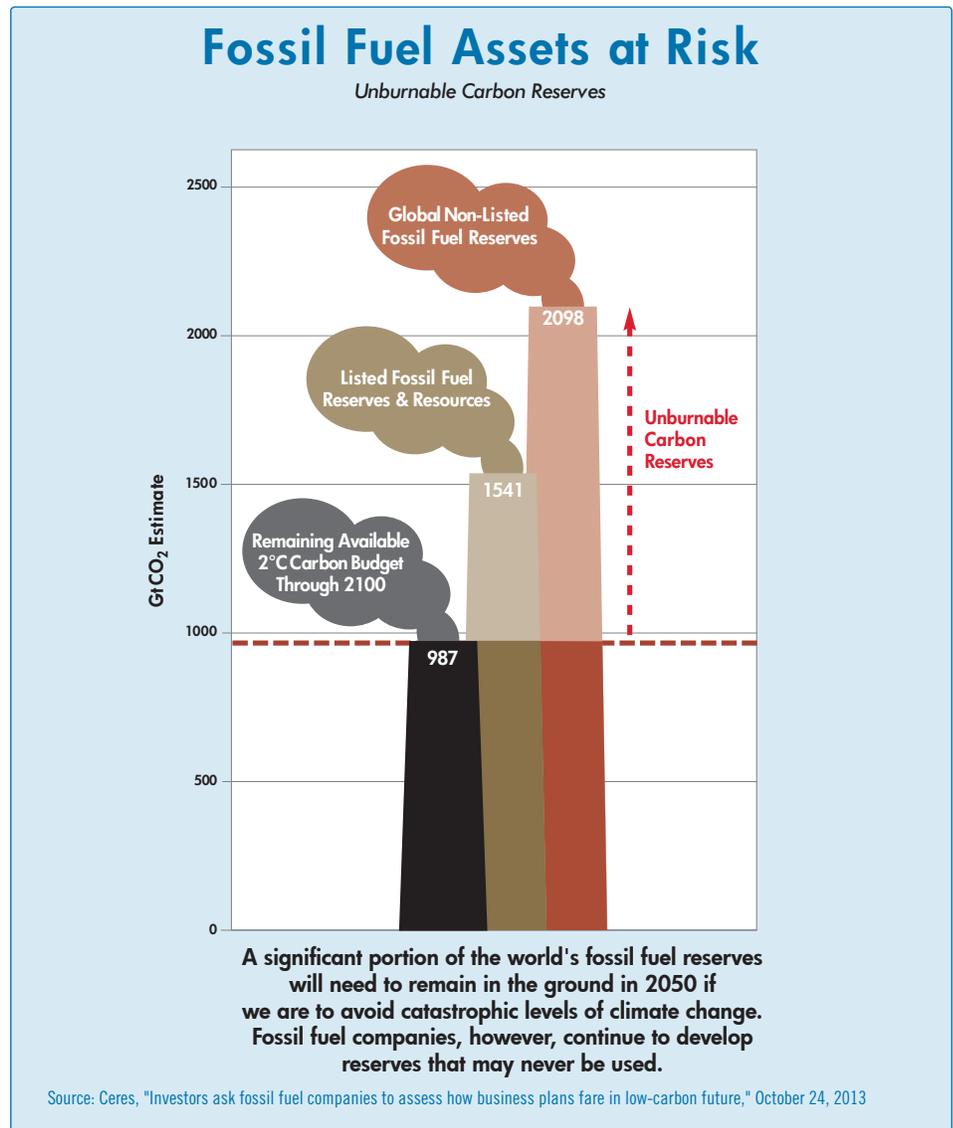
# Pax World presses fossil fuel companies on reserves, climate change

Three Pax World initiatives are focused on changing how the largest fossil fuel companies plan to handle huge oil, coal and natural gas reserves in the face of growing climate change risks. These efforts include: 1) direct advocacy with more than 40 companies, 2) a proxy voting strategy, and 3) a joint effort called the Carbon Asset Risk (CAR) project with a coalition of 70 investors asking fossil fuel companies around the world a variety of questions regarding how they intend to manage climate-related risks.

Recent scientific work suggests that no more than one-third of the world's proven reserves of fossil fuels may be burned before 2050 without committing the world to a global average temperature increase exceeding 2°C, the threshold established by the United Nations Framework Convention on Climate Change for dangerous human interference with the climate. A business-as-usual path corresponds to a global temperature rise closer to 4°C or more by 2100, which is likely to be catastrophic, according to the World Bank. Pax World's efforts are focused on convincing fossil-fuel companies to reassess their treatment of their fossil fuel reserves. The term "unburnable carbon" has now been assigned by many to these reserves as they cannot be burned without triggering the above-mentioned climate threshold.

According to the *Unburnable Carbon* report, in 2012 alone, the 200 largest publicly traded fossil fuel companies collectively spent an estimated \$674 billion on finding and developing new reserves—some of which may never be produced.<sup>1</sup> Pax World's efforts highlight the opportunity to redirect this capital, rather than wasting it on high carbon assets that could be deemed unburnable under future, more restrictive emissions regulations.

In April 2013, Pax World wrote to fossil fuel companies owned through its investment portfolios asking them to address the risks posed by their carbon reserves or explain how they will operate in a world with an average temperature that is 4°C warmer. Almost one-quarter of the companies replied. Many



disclosed actions aimed at diversifying into renewables and reducing emissions. "That's an unusually high response rate to a letter written by just one asset manager," says Julie Fox Gorte, PhD, Senior Vice President for Sustainable Investing at Pax World. "This shows that this issue is increasingly on the radar of fossil fuel companies."

Pax World plans to vote against the board chair of all fossil fuel companies that do not address either the risks of unburnable carbon or the physical risks of operating in a world that is 4°C warmer.

In October, Pax World was among 70 global

investors managing more than \$3 trillion of collective assets launching a broad advocacy campaign to spur 45 of the world's top oil and gas, coal and electric power companies to assess the financial risks that climate change poses to their business plans. As of October 23rd, investors had received preliminary responses from 30 companies.

Participating investors are asking their peers to support this effort. You can learn more about CAR here [www.carbontracker.org](http://www.carbontracker.org).

<sup>1</sup>"Unburnable Carbon 2013: Wasted capital and stranded assets," Carbon Tracker Initiative & Grantham Research Institute, LSE, p. 4, Copyright © 2013.

# Pax World Global Environmental Markets Fund sub-adviser wins awards

Pax World Investments congratulates our friends at Impax Asset Management, sub-adviser of Pax World Global Environmental Markets Fund (PGRNX) on two prestigious investment industry awards recently earned from *Investment Week* and at Funds Europe Awards 2013. Both these awards were judged and awarded by a panel of independent investment industry experts.

*Investment Week* named Impax Environmental Markets Fund Ireland “Best Climate Change

Fund” at its Environmental, Social and Governance (ESG) Awards event. Impax Environmental Markets Fund Ireland is an open end investment company with shares listed on the London Stock Exchange.

Funds Europe Awards 2013 named Impax “European Specialist Investment Firm of the Year.”

The awards highlight the ascendancy of climate change on the agendas of many investors and

the growing understanding of the long term growth potential of investment strategies that target innovative companies developing new and enhanced technologies to optimize consumption of finite resources such as energy, water and food. 

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 markets 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.

## EXTREME RISKS: HOW TO INVEST IN A RESOURCE-CONSTRAINED WORLD CONTINUED from FRONT PAGE

demand for efficiency solutions in the areas of alternative energy and energy efficiency; water infrastructure and technologies and pollution control; environmental support services and waste management technologies; and sustainable food, agriculture and forestry.

Pax World launched the fund on March 27, 2008 based on the premise that ever-increasing global demand for finite natural resources would drive increasing need for resource optimization and that the innovative

companies and technologies responding to this mandate would become compelling investment opportunities. The growing awareness and understanding among investors of the investments and goals of this fund may have been confirmed earlier this year when it surpassed the \$100 million in assets under management milestone. You can learn more about the fund, its investment approach, the environmental markets and resource optimization on [paxworld.com](http://www.paxworld.com) at <http://www.paxworld.com/gemfund>. 

### Past performance is no guarantee of future results.

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- <sup>1</sup>“Extreme Risks 2013,” Towers Watson, p. 2, Copyright © 2013.
- <sup>2</sup>“Extreme Risks 2013,” Towers Watson, p. 8, Copyright © 2013.
- <sup>3</sup>“Extreme Risks 2013,” Towers Watson, p. 9, Copyright © 2013.
- <sup>4</sup>“Extreme Risks 2013,” Towers Watson, p. 15, Copyright © 2013.
- <sup>5</sup>“Extreme Risks 2013,” Towers Watson, p. 15, Copyright © 2013.

## What's new on paxworld.com

Have you visited Pax World's website recently? New content ranging from commentary to advocacy to product news may be of interest if you haven't already had the chance to see it. A few representative examples include the following:



Pax World Investments President and Chief Executive Officer Joe Keefe, in his recent article, “Women and Sustainable Investing,” explores attitudinal differences between the sexes when it comes to money and investing. He then discusses how financial advisors are going

to have to become better attuned to the gender gap in investing if they are to deliver quality services and support to women clients. To read the full paper visit our web site: [www.paxworld.com/thoughtleadership](http://www.paxworld.com/thoughtleadership)



Pax World Portfolio Manager Ivka Kalus-Bystricky writes in her newest white paper that to sustain Japan's economic recovery, women will need to play a significantly larger role than they have historically. Policies and regulations that empower women

can influence corporate behavior. A greater challenge is changing the country's deep-seated business and cultural norms about the roles of women in business, men and women in society, and the balance between work and family life. To read the full whitepaper visit our web site: [www.paxworld.com/abenomics](http://www.paxworld.com/abenomics)



“Unburnable carbon, material risks, tipping points and end games,” Senior Vice President for Sustainable Investing Julie Fox Gorte, PhD., takes a close look at the environmental and business issues underpinning the global debate over “unburnable” carbon. To read more

visit our web site: [www.paxworld.com/thoughtleadership](http://www.paxworld.com/thoughtleadership)

# Shareholder Corner - Timely reminders for Pax World investors

## Tax season arrives with the New Year. It is also a great time for some tax and retirement planning.

2013 contributions to Individual Retirement Accounts (IRAs) usually can be made until April 15, 2014.

Many factors can affect your eligibility and contribution limits to either the Traditional IRA or Roth IRA. They include factors such as tax filing status, current earned income and whether or not you participate in a retirement plan at work. If you are under 50 years of age for 2013 and 2014, typically you can contribute the lesser of 100% of earned income or \$5,500. If you are 50 years of age or older before the end of 2013, you can contribute the lesser of 100% of earned income or \$6,500 for 2013 and 2014.

Contributions may be split between a Traditional IRA and a Roth IRA.

Traditional IRA contributions are typically made on a tax-deferred basis. That means, you may be able to deduct some or all of your

## Important 2013 documents mailed and/or available online:

**January 31, 2014:** IRS forms combined 1099-DIV/B, 1099-R, 1099-INT, and 1099-Q

**January 31, 2014 (online only):** Qualified Dividend Income and Pass-Through Exemptions Information

**April 30, 2014:** IRS form 5498 ESA

**May 31, 2014:** IRS form 5498

1099-DIV reports taxable dividends and capital gains paid to non-retirement accounts; 1099-B reports redemptions from a non-retirement account and cost basis for covered shares; 1099-R reports redemptions from retirement accounts; 1099-INT reports taxable interest income earned on a non-retirement account; and 1099-Q reports redemptions from a Coverdell ESA; 5498-ESA reports Coverdell Education Savings Account contributions; and 5498 reports retirement account contributions.

contribution from your income for income tax purposes depending on some of the factors listed above. Taxes are typically paid when funds are withdrawn, presumably in retirement, when you may be in a lower tax bracket.

Contributions to Roth IRAs are not tax-deductible because they are funded with money on which income taxes already have

been paid. After five years, certain types of withdrawals, including those taken in retirement, can be made on a tax-free basis.

*Please note that the information above does not constitute tax advice. State tax regulations may differ from federal tax regulations. Always consult your personal tax advisor before making any tax-related investment decision.* 

## We're there for you

You can find help by calling Pax World Investor Services at 800.372.7827, Monday – Friday, 8 a.m. – 6 p.m. ET.

You can handle all of the following transactions online by using Online Account Access at [paxworld.com](http://paxworld.com) anytime to:

- open an IRA or make an IRA contribution
- verify or update your mailing address, and e-mail address

- sign up for Electronic Delivery for Account Statements, Daily Confirmation Statements, Prospectuses, Annual and Semi-Annual Reports, Tax Forms and Proxy Materials
- view or download statements or tax forms.

## Keep in touch

Remember, if the U.S. Postal Service returns your mail as undeliverable, or there is no activity in your account within the time

period specified by applicable state law, your account may be closed and the proceeds transferred to your state. Pax World works with The Keane Organization to look for updated addresses for our “lost shareholders.” If you receive a notice asking you to confirm or update your address, please respond to either Pax World or Keane to update your account. Also, please keep your e-mail address current so Pax World can send you our *Connection* newsletter, as well as periodic notices about our funds, via e-mail. 



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**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.**

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