

INSIDE

HOW TO INVEST
SUSTAINABLY IN U.S.
LARGE CAPS

NEW PAX GLOBAL
OPPORTUNITIES FUND

AWARD RECOGNITION -
DIVERSITY CHAMPION

CONGRATULATIONS
JOE KEEFE AND SALLIE
KRAWCHECK

CONVERSATION PIECES

NEW PAX INSIGHTS

SHAREHOLDER CORNER



Encouraging Companies to Do Better

By Julie Gorte, Senior Vice President for Sustainable Investing

One of the most delightful benefits

of working in sustainable investment is sleeping at night: the work we do gives us the assurance that our days are spent making the world better and more sustainable. It is enormously helpful that so many more investors are, 47 years after Pax started, seeing the financial logic behind sustainability. The challenges we face are profound enough to need a large community of sustainable investors to solve them.

One place where we make headway is on gender equality. There is a lot of support in the academic and financial literature for the idea that companies that work to empower women tend to do better financially. So, for over a decade, on behalf of Pax World Funds we have used our annual proxy votes to vote against all-male boards, and to vote against the male members of boards with only one woman on them. And over the last five proxy seasons (July 2013 - July 2018), we have voted against 322 all-male board slates.¹

The needle moves slowly on board diversity, but it does move: every year, there are fewer companies with all-male boards, particularly among larger companies.

We've also expanded our company engagement to cover another key aspect of women's empowerment: pay equity. This year, we filed resolutions asking that companies conduct pay audits and commit to paying men and women equally at HP, Inc., Discover Financial Services, KeyCorp, MetLife, Inc., and Oracle. We were able to withdraw the resolutions at the first four² after all of them agreed to publish

commitments to pay equity with detailed information on their processes for managing pay equity, including plans for how they will remediate unexplained pay gaps.

Along with many other asset owners and asset managers who have focused engagements on pay equity, we believe that progress here helps to set a standard that informs all companies, not just the ones we engage specifically. There is a domino effect in sustainability: when leading companies make progress, competitors and aspiring competitors tend to quietly adopt those practices as well. Competition, in this case, is not just a race to the bottom.

All that said, there are times when we face headwinds. Right now, public policy is often just such a headwind: there has been an effort on the part of some companies and trade associations to eliminate or curtail shareholders' rights to file shareholder proposals. Legislation that has passed the House of Representatives would, if it becomes law, significantly undermine the ability to file shareholder proposals.

One trade group has published a deeply flawed study that purports to show that shareholder engagement does not add value, and that so-called "main street investors" do not want asset managers to engage companies on sustainability matters. Those main street investors often have choices, and when they choose Pax World Funds, they can be assured that we will engage companies on sustainability issues, from pay equity to board diversity to mitigating climate change to sustainability reporting.

Editor: **Patrick Flynn**

Layout: **Dorset Norby Star**

General Fund Information:

☎ 800.767.1729

Shareholder Account Information:

☎ 800.372.7827

www.paxworld.com



How to Invest Sustainably in U.S. Large Caps

Q&A with Portfolio Manager Andrew Braun and Co-Portfolio Manager Barbara Browning

Andrew Braun and Barbara Browning joined the Pax World team as Portfolio Manager and Co-Portfolio Manager, respectively, of the Pax Large Cap Fund in September 2017. In this interview, Mr. Braun and Ms. Browning discuss their investment strategy, sustainability investing and market views.

Learn more about the Pax Large Cap Fund at paxworld.com/largecap. An expanded version of this interview is available on Pax's website at paxworld.com/interview_largecap.

Q: What are the attributes that make the Pax Large Cap Fund distinctive?

Andrew Braun (AB): We feel there are three core aspects of our strategy which help set the Fund apart from peers. First, we construct the portfolio to maximize alpha¹ from stock selection, as opposed to relying on sector bets. Second, the portfolio is highly curated into 40 to 60 stocks that we believe are some of the best-managed companies in the U.S. This portfolio concentration enables us to know our companies well and emphasize our best ideas. Third, our proprietary Pax Sustainability Score is fully integrated into our stock selection and portfolio construction, adding true environmental, social and governance (ESG) intentionality to the portfolio, which we believe helps enhance alpha and reduce long-term risk.

Q: What are some of the specific things you are looking for in a company?

Barbara Browning (BB): We generally look for companies with one or more catalysts that we believe will lead to either an increase in profitability or revaluation over a 12- to 18-month time frame. A catalyst can come in the form of an improvement in the company's operating environment, a change in management, a new product cycle, or enhanced capital allocation.



Andrew Braun
Portfolio Manager
Pax Large Cap Fund



Barbara Browning, CFA®
Co-Portfolio Manager
Pax Large Cap Fund

Over a longer time horizon, we want to be invested in companies that are positioned to benefit from the transition to a more sustainable global economy. Companies with strong sustainability attributes are not only better equipped to reduce risks but are also often focused on fast growing products and services that are transforming their respective sectors and industries.

Q: Can you provide examples of the way sustainability risks can translate into compelling investment opportunities?

AB: We think heating, ventilation, and air conditioning (HVAC) system providers are a compelling investment opportunity over the next few years. Half of all greenhouse gases are emitted by buildings, so advances in HVAC systems are critical to effectively managing global warming. In addition, 80-90% of the cost of an HVAC system is from its energy use. Manufacturers producing more energy-efficient systems have an opportunity to gain market share and drive cost benefits for customers.

Another notable example is the electrification of vehicles and movement toward autonomous driving. The electrification of vehicles reduces emissions and reliance on oil, while growth of autonomous vehicles has

the potential to reduce the number of vehicles on the road through ride sharing and fleet sales. As the auto industry transitions over the next decade, the suppliers of specialized auto components should grow both revenue and operating margin from increased components per vehicle.

A third example arises from the need to replace our aging transportation and water infrastructure. More public and private dollars will need to flow to companies that provide the goods and services needed to strengthen and repair crumbling roads, bridges and pipes.

Q: In the age of passive funds and ETFs, how can an actively-managed, fundamental-driven process benefit a client's portfolio?

BB: First, we feel the shift from a declining interest rate environment to a rising rate environment will offer a more attractive backdrop for active managers. Compared to capitalization-weighted passive funds, our active approach can better align with powerful fundamental and sustainability trends that are expected to unfold over the next 5 to 10 years.

Secondly, and just as importantly, the integration of ESG research into our process will highlight risks and opportunities that can enhance stock selection and the Fund's performance. Passive strategies cannot easily replicate a responsive and proactive focus on ESG issues, or on the growing universe of companies well positioned to benefit from the transition to a more sustainable global economy. We believe that over time these companies should deliver better returns and lower risk than the broader index. **X**

¹Alpha is a coefficient measuring risk-adjusted performance, considering the risk due to the specific security, rather than the overall market.

CFA® is a trademark owned by the CFA Institute.

Pax World News

New Pax Global Opportunities Fund

We are pleased to introduce the Pax Global Opportunities Fund. Ten years following the launch of the Pax Global Environmental Markets Fund, this is our second fund offering sub-advised by our Impax Asset Management colleagues in London and the first fund launched since our firms joined forces in January 2018.

The launch of the Pax Global Opportunities Fund leverages the increased scale and expertise of our combined firm and highlights our commitment to providing a more diversified range of innovative sustainable investing strategies to clients.

The Fund seeks to deliver capital growth by investing in companies positioned to benefit from the transition to a more sustainable global economy. We believe that demographic change, resource scarcity, inadequate infrastructure and environmental constraints will disrupt private sector markets profoundly in the coming years, creating opportunities for well-

positioned companies and increased risk for companies unable or unwilling to adapt.

Award Recognition - Diversity Champion

We are pleased to share that *InvestmentNews* has recognized our firm as a 2018 Excellence in Diversity and Inclusion Awards winner. The firm was honored as a Diversity Champion for its formal initiatives aimed at promoting diversity and inclusion. We were chosen for our ability to inspire others from diverse backgrounds to join, flourish and bring their true selves to work in the financial services industry.

Congratulations Joe Keefe and Sallie Krawcheck

In July, *Barron's* recognized Joe Keefe, CEO of Pax World Funds and Pax Ellevest Management, and Sallie Krawcheck, Chair of Pax Ellevest Management, in their list of The 20 Most Influential People in ESG Investing, specifically for their work in gender lens investing and partnership on the Pax Ellevest Global Women's Leadership Fund. **X**

New Pax Insights

New perspectives from Pax World experts are available at paxworld.com/insights



Investing to Make Our Planet Less Plastic

Our planet is facing serious ecological challenges – and one of the most striking is that plastic is choking our oceans, harming wildlife, and even finding its way back into the food chain.

Read the article at paxworld.com/investing-to-make-our-planet-less-plastic/



The Gender Gap Isn't About Sex. It's About Power

There is an imbalance in the amount of power men and women possess, which may explain why men command the highest paying jobs and hold a majority of board seats and corner offices.

Read the article at paxworld.com/the-gender-gap-isnt-about-sex-its-about-power/

CONVERSATION PIECES



“ We think where women are better represented in leadership you'll have better cultures, you'll have better governance... and you'll have less harassment and less sexual misconduct. ”

How investors can close corporate America's gender gap—and see serious returns
CNBC, May 17, 2018
Joe Keefe, President

“ The number of companies in the water value chain has grown significantly. ”

The expanding universe of public-equity water investments
ImpactAlpha, April 9, 2018
Hubert Aarts, Portfolio Manager, Pax Global Environmental Markets Fund

“ To my mind, the ridiculous assertion that any type of social investing by definition must mean a diminution in returns is dated, lazy thinking. ”

Sallie Krawcheck Focuses on Investment Through the Gender Lens
Muse, May 22, 2018
Sallie Krawcheck, Chair, Pax Ellevest Management LLC

There is a lot of evidence that more sustainable companies perform better financially, and we therefore believe it makes sense for shareholders to encourage companies to do better when it comes to sustainability issues, from climate change to gender equality. Sustainability is not a ball and chain on profits, but to the contrary, a hallmark of companies that add value over the long term. We intend to continue to invest in those companies, and, where

necessary, cajole and persuade them to do better. **X**

¹ Note that this figure does not represent 322 unique companies - in many cases, we voted against a board slate put forth by a company over multiple years.

² Pax has refiled its pay equity proposal with Oracle for 2018. Our 2017 shareholder proposal at Oracle on pay equity reporting received support of 38.7% at the Annual General Meeting on November 15, 2017. Excluding inside ownership (Founder and Chief Technology Officer Larry Ellison owns 27% of Oracle's shares), a majority of independent shareholders supported Pax's proposal.

As of 6/30/18, HP, Inc. was 0.04% of the Pax Balanced Fund, 0.5% of the Pax ESG Beta Dividend Fund, 1.2% of the Pax ESG Beta Quality Fund and 0.2% of the Pax Ellevest Global Women's Leadership Fund. Discover Financial Services was 0.1% of the Pax ESG Beta Quality Fund and 0.1% of the Pax Ellevest Global Women's Leadership Fund. KeyCorp was 0.4% of the Pax Balanced Fund, 1.0% of the Large Cap Fund and 1.7% of the Pax Ellevest Global Women's Leadership Fund. MetLife, Inc. was 0.2% of the Pax ESG Beta Dividend Fund and 0.2% of the Pax Ellevest Global Women's Leadership Fund. Oracle Corp. was 0.1% of the Pax ESG Beta Dividend Fund, 0.5% of the Pax ESG Beta Quality Fund and 0.7% of the Pax Ellevest Global Women's Leadership Fund. Holdings are subject to change.

Shareholder Corner: Know Your State's Inactivity Rules

Don't let your state take your account assets

Regulations in several states are prompting mutual fund firms, including Pax World, to encourage shareholders to keep in touch.

Escheatment/Unclaimed Property laws are in place so that your state can act as custodian to safeguard lost assets until the rightful owner or heir requests their return. Escheatment laws require mutual funds to turn over uncashed checks and/or account shares if the owner cannot be located, or if owners don't contact their

mutual fund for a length of time determined by each state - typically between three and five years. Once assets are transferred, you will need to contact the state directly to claim your assets.

Protect your account

The good news is that it is easy to protect your accounts from unwarranted escheatment. Many things you already do keep your account active. Any time you check your balance, place a transaction, or update information on your account, such as your address, telephone number or email address,

your account is active. Or you can log on to your online account at paxworld.com or call Investor Services at 800.372.7827. States typically do not consider automatic investments or systematic withdrawals as contact.

If your account has been inactive and is in danger of escheatment, you will receive a letter from Pax World that offers step-by-step instructions to activate your account. If you receive a letter, please follow the instructions to contact Pax World at your earliest convenience to maintain your account with us. **X**



30 Penhallow Street,
Suite 400
Portsmouth, NH 03801
800.372.7827
info@paxworld.com
www.paxworld.com

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. Past performance does not guarantee future results.

RISKS: Equity investments are subject to market fluctuations, a 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. Investments in high yield bonds generally are subjected to greater price volatility based on fluctuations in issuer and credit quality. When investing in bonds, you are subject, but not limited to, the same interest rate, inflation and credit risks associated with the underlying bonds owned by the Fund. Mortgage related securities tend to become more sensitive to interest rate changes as interest rates rise, increasing their volatility. Funds that emphasize investments in mid-size and smaller companies generally will experience greater price volatility. Investing in non-diversified funds generally will be more volatile and loss of principal could be greater than investing in more diversified funds. The Pax Global Opportunities Fund is new and has a limited operating history.

There is no affiliation between Pax World, ALPS Distributors Inc. and the companies listed within the articles in this newsletter. Copyright © 2018 Impax Asset Management LLC. All rights reserved.

Pax World Funds are distributed by ALPS Distributors, Inc. ALPS Distributors is not affiliated with Impax Asset Management LLC.