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By Julie Gorte, Senior Vice President for Sustainable Investing

2017 was a year that many expected to be a disaster, from the perspective of sustainability. The year started off with the election of a climate-skeptic president who appointed someone who denies climate science to lead the Environmental Protection Agency (EPA), followed by announcements that the Administration intended to roll back the Clean Power Plan and withdraw from the Paris Agreement on climate change. The new cabinet is also 75% white and male, and you have to go back to the Reagan Administration to find one less diverse. The Administration also halted a rule that would have obliged large companies to report on pay by race and gender.

There may be no better way to illustrate the fact that the world is not only driven by public policy in Washington DC than what has actually happened. 2017 saw the launch of the “We Are Still In” coalition, a group of businesses and investors (including Pax), city and county leaders, state and tribal leaders, and higher education institutions that has committed to reducing emissions at levels compatible with the Paris Agreement.

While the regulatory pressure for reducing greenhouse gas emissions may have abated nationally, investors kept up the pressure on companies. For the first time in 2017, shareholder proposals filed with large oil companies asking for them to report on the impact of climate change on their future businesses passed—largely because many of the largest investors, including BlackRock and Vanguard, as well as many large pension plans—see

climate change as a significant, possibly existential risk at such companies. Pax World co-filed one of those shareholder proposals, at Occidental Petroleum. We also filed three others with UPS, ConocoPhillips, and Dominion Resources, asking that the companies assess what climate change means for them and establish incentives to reduce emissions, or adopt renewable energy targets.

Investors also launched a new engagement platform, the Climate Action 100+, that asks the world’s largest greenhouse gas emitters to strengthen governance on climate change, reduce emissions and improve climate-related financial disclosures. Pax is also a member of that initiative.

To put it bluntly, national policies aimed at relieving regulatory pressure on climate change have done nothing to assure investors that climate change is not a risk; a growing number of investors, large and small, see it as a significant source of risk that companies must accommodate.

Similarly, national rollbacks of policies supporting gender equality have not diminished financial pressure for companies to advance it. 2017 was also the year that some of the world’s largest investors began making their wishes for more gender-diverse boards known through their proxy voting: State Street reportedly voted against some directors at 400 companies that had no women on their boards of directors, joining Pax and other investors and asset owners who have voted this way for years. Other large investors have also begun voting for shareholder proposals to diversify boards.

"If there ever was a time when most of what corporations did was driven by public policy, it is over now."

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Water Investing: Tapping into a Source of Resilient Growth

By Hubert Aarts, Co-Portfolio Manager, Pax Global Environmental Markets Fund

The water investment story is diverse and growing, and the drivers behind this growth are strengthening—and look set to do so for decades. Water also presents a far broader investment opportunity than might first be considered. It consists of the pipes, pumps, and meters that form infrastructure, the technology and software that monitors and controls the infrastructure, and the treatment technologies that make water safe for humans to drink.

What is driving growth in the water sector?

We have been researching and investing in the broader water universe since 2002, and within this period, the number of companies in the water value chain has grown significantly. Behind this is an increasing demand for water, paired with an ever-tightening global supply of this finite resource. At the same time, concerns over global water quality and safety are moving up the agenda of governments worldwide.

Technology developments

As well as an increase in demand, technological advances are changing the ways in which water is managed and used, giving rise to a range of investment opportunities. For example, advanced metering solutions are growing at nearly twice the rate of traditional water meters. Smart meters play a critical role in more effective metering and pricing of water, and are key to reducing water use and detecting leaks.

Utilities are being forced to focus on more effective management of their infrastructure, particularly reducing leakage rates and avoiding catastrophic failures. Leakages are a major issue. In the United States, nearly 6 billion gallons of treated water is lost nationwide, due to leaking pipes.¹ One approach to solving this problem is through improved integration of sensors and monitoring.

Smart pump technology is also developing rapidly, including the launch of waste water pumping systems with integrated intelligence.

Drivers of Water Demand

- ◆ Population growth, higher disposable incomes and higher living standards in developing markets, are increasing water consumption.
- ◆ Increasing urbanization, particularly in developing regions, and further industrialization requires substantial new water infrastructure.
- ◆ An urgent need to replace and modernize much of the existing water infrastructure in developed countries to ensure efficient delivery and water safety, driven by tightening government regulation.
- ◆ Extreme weather events, such as storms, droughts and flooding, are becoming more frequent and can have pronounced effects on water infrastructure and demand for clean water.

These systems can adapt performance in real time and provide feedback to pumping station operators, increasing efficiency and reliability, and making them simpler and cheaper to run than the traditional technologies.

Extreme weather events and the water investment implications

Scientific consensus is that the frequency and intensity of extreme weather events is increasing.² The winter storms that battered the East Coast at the end of 2017, and the series of events that saw Californians suffer droughts, wildfires, flooding and mudslides lend weight to this concern.

While the immediate response to flooding requires systems to pump and transport water, longer-term planning around storm resilience typically requires huge investment in water infrastructure, too. For example, water treatment facilities may require upgrading to address contamination during tidal surges and flood conditions.

Cyclical and defensive benefits

The performance of cyclical stocks is very much dependent on how the wider economy is performing, whereas defensive stocks

are more likely to offer stable earnings in any economic environment. Water-focused stocks offer investors a way to balance their portfolio between the two, and to optimize for attractive returns as appropriate.

Cyclical stocks include companies that produce relatively commoditized products, such as pumps, pipes and valve manufacturers, which see increased demand in economies with infrastructure spending commitments and/or a tightening of environmental regulations.

Defensive stocks include water treatment companies, which typically supply products such as membranes and filters, often on a repeat purchase model so the buyer is tied to buying replacements from the equipment supplier. The equipment has predictable replacement cycles and provides manufacturers with relatively stable earnings profiles. This is also the case for suppliers of mission-critical water chemicals which, while low cost from a monetary perspective, are crucial from a process and safety standpoint. Rather than relying on new capital investment for growth, water chemical companies tend to have clear earnings visibility due to the importance of their product in existing processes.

Water sector investing: experience matters

Over fifteen years' experience of investing in the water sector gives us the insight to identify, in our view, promising companies, and the ability to tap into the resilient growth of this sector, which we believe to be a multi-decade investment opportunity.

For information about the **Pax Global Environmental Markets Fund**, which invests in companies that are developing innovative solutions to resource challenges—including water, energy, waste, and sustainable food & agriculture—visit paxworld.com 

¹ <https://www.infrastructurereportcard.org/wp-content/uploads/2017/01/2017-Infrastructure-Report-Card.pdf>

² https://www.ipcc.ch/pdf/special-reports/srex/SREX-Chap3_FINAL.pdf?dm_t=0,0,0,0

Women Thrive Alliance: Taking Steps to Achieve Gender Equality

Pax World's Global Citizen Program enables Pax World shareholders to earmark portions of their dividends and/or capital gains as a contribution to one of two non-profit organizations that are working to alleviate poverty, empower women, and promote sustainable development around the globe: Mercy Corps and Women Thrive Alliance.

Women Thrive Alliance is a global feminist advocacy network with one goal: make gender equality a reality. Below is an update from the Women Thrive team on their recent accomplishments.

2017 was a big year for Women Thrive.

We have increased the number of Alliance members, provided online and in-person workshops, and widened and strengthened our platforms to ensure women's voices are heard in important decision-making spaces. Here are some of the highlights:

We have grown and strengthened our movement!

In 2017, we surpassed 300 Alliance members. What once was a group of a few grassroots gender equality and women's rights organizations is now a global network whose

members reach up to 1.3 million women and girls in 53 countries. The collective voice of our Alliance has created a movement, bringing advocates together from Vanuatu to Nigeria to Afghanistan. Next year, we have the ambitious goal to reach 400 members, as well as to deepen the Alliance's geographical diversification so that all women and girls can be represented.

We influenced key decision-makers.

From meetings on Capitol Hill to halls of the United Nations to the Twitter profiles of millions, we have raised awareness around the fact that women, especially grassroots women, are not #InTheRoom during decision-making processes. Thanks to our dedicated supporters, our advocacy campaign #InTheRoom went global! Our members' letters and recommendations to key U.N. and U.S. government decision-makers helped raise awareness about what needs to happen for women and girls to access their rights. Next year, our goal is to bring as many as ten grassroots gender equality advocates to high-level U.N. conferences, so that they can

directly deliver their messages to those who have the power to influence their lives.

We trained 289 advocates through online and in-person workshops.

We doubled the number of participants from our 2016 Raise Your Voice courses. In 2018, we hope to hold even more online courses and in-country workshops in order to achieve our goal to train 500 advocates!

Last, but not least, we turned 20!

In 2018, Women Thrive will celebrate its 20th year. Through our 20 years, we've offered 700 hours of coaching to Alliance members, 200 hours of in-country workshops, and approximately 1,000 hours spent advocating on Capitol Hill and the U.N. combined. In 2018, our #20YearsThriving campaign will showcase the work we've done through our members' and supporters' stories, videos, events, and much more.

Now more than ever, our work is crucial if we are to ensure women and girls are not left behind in the fight against poverty and inequality! 🌱

New Pax Insights

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

#MeToo, "Time's Up" and Gender Lens Investing

Over the past several months, we have witnessed a parade of historic events related to sexual harassment and assault... **Key Takeaways**...

◀ **#MeToo, "Time's Up" and Gender Lens Investing**

Read the article at paxworld.com/metoo-times-up-and-gender-lens-investing/

Finding Value in Green Asset Backed Securities

The green bond market has grown rapidly in the past few years... **Key Takeaways**...

◀ **Finding Value in Green Asset Backed Securities**

Read the article at paxworld.com/finding-value-in-green-asset-backed-securities

The Investment Case for Gender Equality

Research that shows diversity also tends to result in better... **Key Takeaways**...

◀ **The Investment Case for Gender Equality**

Read the article at paxworld.com/the-investment-case-for-gender-equality-new

How to Approach ESG in High Yield

Research shows that a positive ESG score, when applied to... **Key Takeaways**...

◀ **How to Approach ESG in High Yield**

Read the article at paxworld.com/approach-esg-high-yield

Pax World and Impax Join Forces

Impax Asset Management Group plc completed its acquisition of Pax World Management LLC on January 19, creating an integrated investment manager focused on the transition to a more sustainable global economy.

Pax World Management LLC has been renamed Impax Asset Management LLC, however, the name of Pax World Funds and the investment approaches of all the mutual funds within the Pax World family will remain unchanged.

As previously reported, the investment and support/client service teams at both companies will remain in place. More information is available at paxworld.com/ acquisition.

Fund Name Change and Expense Reduction

On February 26, 2018, the Pax Ellevest Global Women's Index Fund was renamed Pax Ellevest Global Women's Leadership Fund. The investment process has not changed and the Fund remains a global, factor-based investment strategy designed to capture investment returns associated with gender diversity and women's leadership. "Index" has been replaced with "Leadership" in the Fund's name to more accurately capture the Fund's investment process, which is not passive but rather tilts the portfolio toward companies with gender diverse leadership.

Also, Pax is pleased to note that the Pax Ellevest Global Women's Leadership Fund

expenses were recently lowered across share classes by 10 basis points¹.

Effective February 26, 2018, the Fund's investment adviser has contractually agreed to waive its management fees in excess of 0.55% of the Fund's net assets.² This waiver results in the overall expenses of the Fund (or Net Annual Fund Operating Expenses) changing from 0.65% to 0.55% for the Institutional Class and 0.90% to 0.80% for the Investor Class of the Fund's average net assets for the last fiscal year. 🌱

¹ A basis point (bps) is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.

² This contractual waiver is in place through March 1, 2019 and may not be modified or terminated prior to that date without the approval of the Board of Trustees.

POLITICAL HEADWINDS ARE NOT SHOWSTOPPERS, CONTINUED from FRONT PAGE

And while the Trump Administration's Equal Opportunity Employment Commission dropped an Obama-era proposal requiring corporate reporting on pay by gender and race, Great Britain instituted a gender pay reporting requirement. If reporting on pay by gender, race and other demographics becomes the norm elsewhere, U.S. companies that take advantage of Trump's policy stance, risk being seen as backward and uncompetitive. That is part of the reason that Pax World filed seven shareholder proposals asking for gender pay equity reporting in 2017; as

a result, six companies enhanced their pay equity disclosure. Notably, at Oracle Corp., our proposal received favorable votes by nearly 39% of the votes cast—and considering that Larry Ellison owns over 26% of Oracle's shares, that constitutes a majority of all the other shareholders.

If there ever was a time when most of what corporations did was driven by public policy, it is over now. The drivers of action are legion, and include investors, customers, stakeholders, workers, and, well, any interested citizen. Rolling back regulation may

be popular in the short term, but when the regulations in question are aimed at solving real-world problems that have significant economic and financial costs, expect the rollbacks to have limited impact.

Political headwinds are no fun, but they're not showstoppers either. If anything, the political sentiment of the current administration has stimulated action by us and other investors to keep the terms of sustainability firmly in the conversations and decisions of corporate boards and executive suites. 🌱



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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. 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.

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