PAX World Funds
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INSIDE

BALANCED FUND Q&A WITH PAX CHIEF INVESTMENT OFFICER STEVE FALCI

"BEST COMPANIES" THREE-PEAT

DEAR MR. CLAYTON...

THE NEW ESTABLISHMENT

CONVERSATION PIECES

NEW PAX INSIGHTS

SHAREHOLDER CORNER

The Sustainability Transformation

By Julie Gorte, Senior Vice President for Sustainable Investing

History is stuffed with examples of societies that faced existential challenges and failed to solve them: Easter Island, the Anasazi in Chaco Canyon, the Norse settlers in Greenland, the Maya in Central America.[1] Today, the challenges are planetary in scale, and failure to solve them could mean that global societies collapse.

We're in the midst of what many experts see as the sixth great extinction.[2] Unlike the first five, this one isn't attributable to external events like a meteor impact or flood volcanism. This one is on us: a consequence of things like greenhouse gases, overuse of fresh water, overpopulation, inequality, poverty and unchecked pollution. These are global challenges we need to solve, and we need a *sustainability transformation* in order to solve them.

Companies and investors can help make this transformation happen. And there's every reason to think it will be as financially rewarding as investing with an exclusive focus on monetary returns.

The issues, in a nutshell

Climate change: Climate change presents risks that will, if unmitigated, have a profound impact on economic performance and financial returns.

Resource scarcity: Natural resources are being damaged and overexploited because they are not valued correctly. The sustainability transformation demands that we value them properly.

Inequality and poverty: We won't create a truly sustainable economy unless we address social challenges such as inequality and poverty.

Demographics and equality: Improving women's economic opportunities and closing economic gaps for racial and ethnic minorities would greatly boost the world's economy[3] and create a more sustainable future.

Investors and the Transition

Investors have a financial interest in a seamless transition to a more sustainable economy — and a lot of money at risk if we fail to act. There are several tools investors can use to help achieve the transition.

Long-term thinking: Mitigating the issues will take sustained effort over years, if not decades. Investors whose long-term time horizon stretches only five years will miss opportunities and fall victim to risks that manifest themselves unpredictably, but over much longer time periods.

ESG integration: Integrating ESG factors into investment management makes the risks of not becoming more sustainable (and the opportunities the sustainability transformation presents) things that can be priced into portfolio construction and measured by returns generated.

Impact investing: We can lead the transition by investing in areas that directly help to bring a more sustainable future, such as clean energy, financial inclusion and sustainable agriculture.

Engagement: The transformation will come much sooner if we can convince enterprises to make their operations more compatible with a sustainable economy.

We have a simple, stark choice: Choose and work toward a more sustainable future or be surprised and often shocked by increasingly severe and frequent disasters that our business-as-usual path leads us to. As investors, we have power to bring about a more sustainable economy and doing so will give our descendants the opportunity to live in a world of comity, peace and sufficiency. We would be foolish to ignore that possibility simply to make more money today. Let's use our power. X

[1] Diamond, Jared. "Collapse: How Societies Choose To Fail or Succeed." New York: Penguin Group, 2005, and Masters, Jeff. "Ten Civilizations or Nations That Collapsed from Drought," Weather Underground, March 21, 2016.

[2] National Geographic. "Will Humans Survive the Sixth Great Extinction?" June 23, 2015.

[3] Global Impact Investing Network. "Annual Impact Investor Survey 2018."

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Pax Balanced Fund – More Than 45 Years of Impact

Q&A with Pax Chief Investment Officer Steve Falci on the Pax Balanced Fund

Launched in 1971, the Pax Balanced Fund was the first socially responsible mutual fund in the U.S. Today, the Fund is a multi-asset ESG strategy that utilizes a dynamic, risk-focused asset allocation approach and diversifies across a broad range of Pax funds. In this Q&A, CIO Steve Falci shares his views on the Fund's innovation, impact and its distinctive characteristics.

Steve Falci, CFA®
Chief Investment Officer

Q: With a 45+ year history, how has the Pax Balanced Fund adapted as sustainable investing and financial markets have evolved?

Steve Falci (SF): The Fund's longevity is really a testament to the idea that investors can seek attractive long-term investment outcomes through a diversified portfolio while also contributing to positive societal outcomes. We have held true to that philosophical tenet and it still resonates today.

Pax's history of innovation and deep ESG expertise has helped the Fund remain at the forefront of sustainable investing. Over the years, the Fund's strategy has been refined to keep pace with financial market developments and sustainable investor preferences. More recently, over the last five years, we have taken steps to bolster the asset allocation process, inject more portfolio diversification through new investment strategies and asset class exposures, and deepen the impact that the Fund can offer across a range of sustainability issues.

Q: Can you explain how the Fund creates positive impact? And, are there any notable areas of emphasis?

SF: There are variety of ways in which the Fund seeks to create positive impact for shareholders.

For example, the fixed income portion of the portfolio provides exposure to direct high-impact investments such as green bonds and community investment notes, which address issues such as climate change and affordable housing. We engage with companies to improve their ESG performance and to make a positive difference on specific issues, such as climate change, board diversity and gender pay equity. The Fund includes thematic strategies that invest in solution-oriented companies that are confronting environmental challenges. Lastly, full ESG integration within each underlying fund results in a bias toward companies with better sustainability profiles. Ultimately, we believe this approach helps drive improved corporate sustainability, which we think is ultimately better for investors and will deliver broader benefits to society as a whole.

Q: How does the Fund differ from other sustainable investing multi-asset funds?

SF: It can be challenging for other fund providers to construct a multi-asset portfolio with an ESG integration approach that is as cohesive and diverse as the Pax Balanced Fund. The Fund consists of a unique mix of underlying strategies employing the expertise across Impax's Portsmouth, NH, and London-based investment teams. ESG is integrated in each strategy while accommodating the unique characteristics and challenges of the individual asset classes and investment processes.

I think this specialist approach is unique, and our commitment to shareholder engagement through proxy voting, shareholder resolutions and public policy advocacy is difficult to match. Many investors use the Fund as a way to access an entire sustainable portfolio — fully diversified, professionally allocated and invested — with a single investment.

Learn more about the Pax Balanced Fund at paxworld.com/balanced. An expanded version of this interview is available on Pax's website at paxworld.com/interview_balanced. **X**

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The Pax Balanced Fund invests in underlying Pax World Funds, providing exposure to a broad range of asset classes, sectors, geographies and sustainable investment strategies.

EQUITIES				FIXED INCOME	
U.S. Active	**U.S. Smart Beta**	**Global Equities**	**International Developed Markets**	**Investment Grade**	**High Yield**
Pax Large Cap Fund, Pax Mid Cap Fund	Pax ESG Beta Dividend Fund	Pax Global Opportunities Fund, Pax Global Environmental Markets Fund	Pax MSCI EAFE ESG Leaders Fund	Pax Core Bond Fund	Pax High Yield Bond Fund
SUSTAINABLE INVESTING HIGHLIGHTS					
Fundamental ESG research	Quantitative ESG scoring	Sustainability lens, environmental solutions	High exposure to ESG leaders	Impact bond allocation	Fundamental ESG research

Pax World News

“Best Companies” Three-peat

For the third consecutive year, Pax has been named one of the best companies to work for in New Hampshire. Each year Business NH Magazine and NH Businesses for Social Responsibility assess companies statewide on how well they’re performing as employers, assessing the benefits, company culture, employee development strategies, wellness programs, family-friendly policies, and other criteria at dozens of organizations to come up with a list of the best. See our profile in the September 2018 edition of Business NH Magazine at https://bit.ly/2N0NQbr.

Members of our team at the breakfast celebration for New Hampshire’s best companies. Back row, left to right: Celeste Cole, Willie Roda and Jason Santo. Front row, left to right: Brian Fruh, Maureen Conley and Cheri Gutowski.

Dear Mr. Clayton…

Senior Vice President for Sustainable Investing Julie Gorte recently penned a letter to the SEC, urging the commission to consider the business and financial case for shareholder engagement as certain industry groups seek to tamp down such activity. “The shareholder proposal process gives investors of all sizes a way to communicate with boards, who are there to represent them, and it provides an avenue for investors to bring value-enhancing ideas to boardrooms and executive suites,” Gorte wrote.

The New Establishment

Pax Ellevate Chair Sallie Krawcheck has been named to Vanity Fair’s “2018 New Establishment List,” which shines a light on 100 individuals who are “leading the Age of Innovation.” X

New Pax Insights

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

How Climate Change Affects Financial Performance

Julie Gorte explores the implications for investors by illustrating climate change costs, risks and opportunities.

Read the article at paxworld.com/article_performance

It's Time To Stop Investing in Men by Default

Everyone knows diversification is a key tenet of prudent investing, so why do so many of us blindly invest in just one gender? Sallie Krawcheck explores.

Read the article at paxworld.com/article_default

Conversation Pieces

We talk about board diversity a lot — our work depends on it. We pulled together some **conversation starters** so those less well-versed on the topic could begin their own discussions.

With your CEO…

“I noticed that our board is mostly men. I think we’d benefit from having the perspective of more women, especially since half of our customers are female. Would you consider committing to more diversification?”

With your investment advisor…

“Does your firm vote its proxies? I want to be sure you are not simply rubberstamping all-male boards of directors.”

With your daughter…

“I could see you on a board of directors someday.”

See more ideas at https://bit.ly/2FdQDdU

Walk the Talk

Companies with more women in leadership positions perform better.

That's why since 2010 we’ve voted against more than 1,200 board slates due to insufficient gender diversity.

Shareholder Corner: Tax Season Reminders for Pax World Investors

Good news on IRAs

The IRS has announced higher contribution limits for your Individual Retirement Arrangement (IRA)! There are certain factors that can affect your eligibility and contribution limits to either a Traditional IRA or Roth IRA. More information is available from the IRS, as noted below.

If you are under 50 years of age in 2019, typically you can contribute the lesser of 100 percent of your earned income or $6,000. If you are 50 years of age or older before the end of 2019, you can contribute the lesser of 100 percent of your earned income or $7,000.

You can also make prior-year IRA contributions (for tax year 2018) until April 15, 2019. If you are making a prior year contribution, those limits are still $5,500 if you are under 50 years of age and $6,500 if you are 50 years of age or older.

Subject to deduction limits, Traditional IRA contributions are generally made on a tax-deferred basis, which means that you may be able to deduct some or all of your contribution from your taxable income. Taxes are typically paid when funds are withdrawn, presumably in retirement, when you may be in a lower tax bracket.

Important Dates

April 15, 2019: Deadline for tax year 2018 (prior year) IRA contributions.

2018 documents will be mailed and/or available online:

January 31, 2019 (online only): Qualified Dividend Income and Pass-Through Exemptions Information

January 31, 2019: IRS forms 1099-R and 1099-Q

February 15, 2019: IRS form 1099-DIV/B

April 30, 2019: IRS form 5498-ESA

May 31, 2019: IRS form 5498

Pax World Funds mails a combined DIV/B form, which follows the required mail schedule for form 1099-B.

1099-R reports redemptions from retirement accounts; 1099-Q reports redemptions from a Coverdell Education Savings Account (ESA); 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; 5498-ESA reports Coverdell ESA contributions; and 5498 reports retirement account contributions.

Subject to income limits, contributions to Roth IRAs are not tax deductible. Since these funds were already subject to income tax, after holding a Roth IRA for five years, certain types of withdrawals, including those taken in retirement, can be made on a tax-free basis.

For more information about your eligibility or the differences between Traditional and Roth IRAs, please see IRS Publication 590A, "Contributions to Individual Retirement Arrangements," at www.irs.gov, or call the IRS at 800.829.3676 to order a copy.

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

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