Engagement Report
2019
At Impax Asset Management LLC, adviser to Pax World Funds, we are leaders in investing in the transition to a more sustainable economy, and we take that role very seriously. That’s why we analyze the sustainability of everything we add to our portfolios, because we know that every investment has impact. Actually, every investment has multiple impacts — every stock or bond we put in our portfolios affects people, communities and the planet in multiple ways. After decades of analysis, we have yet to find a perfect company, and that’s why we don’t stop at analysis — we engage. When we engage with companies, it is meant to do two things: improve the company’s financial performance and improve the company’s sustainability performance. Those two things are closely related, and they’re more important than ever before.

One of the things that we know contributes to positive financial performance is diversity. Companies that understand that diverse groups do a better job of decision-making than homogeneous groups, and that understand that their competitive prospects are better if they can get the best from their entire workforce, are better positioned to deliver value than peers that don’t. We’ve been urging companies to pay attention to diversity for more than a decade: We not only vote our proxies against all-male boards, but against boards with just one “token” woman on them, as well. We have filed 11 shareholder proposals urging companies to make diversity a part of each and every director search. And we have filed 15 shareholder proposals and engaged in dialogues with many companies urging them to conduct pay audits, disclose the results and take steps to correct any gender pay gaps that exist.

Concerns about climate change also motivate much of our shareholder engagement. We are in the midst of the sixth great extinction on our planet, and unlike the first five, this one is our fault: Our greenhouse gas emissions have raised Earth’s average temperature, and that change has changed weather patterns, sea levels and natural habitats. As this report was being written, NASA announced that the past five years have been the hottest ever, since we started keeping track of temperature in the early 1800s. Even with countries, companies, states and municipalities having made commitments to reduce emissions, we are still on a path to raise global temperatures by approximately three degrees Celsius in the 21st century, to levels unprecedented in human memory. The likelihood that these changes will be catastrophic is strong. The risks that climate change poses for companies and investors is already substantial — many insurance and reinsurance companies have posted catastrophe-related losses in the hundreds of millions and even billions, and at the time of this report’s writing, at least one major utility had declared bankruptcy resulting from liabilities largely related to our changing climate.

Many investors and companies still regard climate change as posing long-term rather than imminent risks, and, therefore, don’t use them to inform decision-making today. We disagree: We see climate change as posing risks right now, and while these risks will continue (and increase) over the longer term, we believe they should be integrated into strategic plans and investment decisions today. Our engagements with companies are aimed at getting them to recognize and report these risks, set targets for reducing emissions, and invest in low- or zero-carbon assets.

This report shows our engagements — and outcomes — during the calendar year 2018. These engagements are impactful not only for investors, but for the planet: our ability to maintain civil society and preserve the ecosystems that provide us the necessities of life. And those, in turn, are good ways to add value to a portfolio.

Sincerely,

Julie Fox Gorte, Ph.D.
Senior Vice President for Sustainable Investing
Pax World Funds
WHY WE ENGAGE

Shareholders want the companies in their portfolios to perform well and create value. By engaging with the companies held in our funds, we help ensure they’re attuned to the risks and opportunities of the transition to a more sustainable global economy, which we believe will help them create long-term value for investors. In short, engagement helps us encourage the companies we hold to improve in ways that make them even better investments. Our engagement efforts fall into two primary activity areas: company engagement and public policy engagement.

ENGAGEMENT TOPIC EXAMPLES

- Board Diversity
- Gender Pay Equity
- Paid Family Leave
- Deforestation
- Renewable Energy
- Water
- Plastics Pollution
- Greenhouse Gas Emissions/Reduction Targets
- Methane Emissions
- Sustainable Protein Supply Chains
- Governance Structure
- Executive Compensation
- Political Influence/Lobbying
- Sustainability Reporting
CURRENT FOCUS ISSUES

Over the past several years, we have focused our efforts on the following key issues:

BOARD DIVERSITY

The data are clear: Where women are better represented in corporate leadership, businesses perform better. Companies that combine competitive financial performance with high standards of corporate governance, including board diversity, are better positioned to generate long-term value for their shareholders. That’s why board diversity is one of our priority engagement areas. We vote “no” on all-male boards and we ask companies to implement policies and practices to achieve greater board diversity. We ask companies to formally institute diversity and inclusion policies and to report on progress to shareholders in annual proxy statements.

GENDER PAY EQUITY

Companies that are committed to pay equity are better positioned to achieve greater gender diversity and attract and retain talented employees, which makes them more competitive. That’s why we encourage the companies in our portfolios to become gender pay equity leaders. We ask companies to conduct pay equity assessments, disclose the results and commit to closing any gender pay gaps that exist. We have also petitioned public policymakers to require public companies to disclose gender pay ratios annually.

CLIMATE CHANGE

As an investment manager focused on the transition to a more sustainable global economy, we know that climate change is a risk that investors cannot afford to ignore. That’s why we actively engage with companies on climate-related issues and hold them accountable for their climate impact. We focus on companies in the most carbon-intensive sectors to persuade them to adopt higher standards when it comes to reducing emissions and mitigating climate change.

Specifically, we ask management to track and report their greenhouse gas emissions, establish emissions reduction targets compatible with limiting future warming to two degrees Celsius and assure that their boards understand the business risks associated with climate change.
Proxy voting

Proxy voting is a key component of ongoing dialogues with companies in which we invest. In 2018, we voted 100 percent of our proxies, on issues ranging from board of director elections, executive compensation and capital structure to environmental and social issues. When we voted “no” due to board diversity concerns, we wrote to the company, explained our opposition and suggested steps it could take to improve.

Proxy Voting Guidelines: Two Examples

**Climate change:** We generally vote in favor of proposals that request companies to disclose potential risks from climate change or that request disclosure or development of policies or programs to mitigate climate change risks and impact.

**Diversity and inclusion:** We vote against all-male board slates and board slates with no minorities, and we will not support a full board slate unless it includes at least two women. Also, we generally vote in favor of proposals that request the disclosure or development of policies and programs aimed at promoting and advancing diversity and inclusion.

100% In 2018, we voted 100 percent of our proxies.

**Proxy Votes by Topic**

82% **Votes for shareholder proposals:** 82% of the time we voted for shareholder proposals on matters ranging from climate change preparedness to gender pay equity.

44% **Votes against executive compensation:** 44% of the time we voted against proposals seeking approval of the company’s compensation structure.

43% **Votes against management proposals:** 43% of the time we voted against management-sponsored proposals on topics such as board of director elections and capital structure.
Shareholder resolutions & company dialogues

Shareholder resolutions are one means to initiate engagement with companies we own. We file them when we see opportunities for a company to adopt higher standards of corporate responsibility. We regularly reach out to companies we invest in to find out more about their governance and operations, and sometimes these contacts result in ongoing dialogue that leads to positive change.

Pay Equity Reporting: We asked HP, Inc., MetLife, Discover Financial Services, Oracle and KeyCorp to report on whether a gender pay gap exists among its employees and, if so, what steps the company is taking to reduce it. **Outcome:** Oracle did not engage in dialogue and shareholders voted on the proposal, while the other four companies fulfilled our requests.

Political Influence & Climate Change: Along with other investors, we co-filed a proposal asking Alphabet, Inc. for better disclosure about contributions to organizations whose stated climate positions differ from those that the company has taken. **Outcome:** Our proposal went to shareholder vote and received 9.4 percent support.

Two Degree Oversight: We co-filed a proposal asking Dominion Energy and Valero Energy to produce assessments of the long-term portfolio impacts of likely climate change scenarios. Specifically, we asked how they will operate within the constraints of the two-degree warming scenario for climate change and how they are altering their business models to ensure they don’t exceed that threshold. **Outcome:** Both companies agreed to produce assessments.

Proof of Progress

Four companies committed to becoming more transparent about pay equity as a result of shareholder resolutions and dialogues in 2018. Discover Financial Services, HP, MetLife, and KeyCorp all agreed to publish written commitments to pay equity and details about their processes for managing pay equity. In addition, at Oracle’s annual general meeting in November, our Lead Sustainability Research Analyst, Heather Smith, presented a pay equity proposal asking the company to disclose any gender pay gaps among its employees and report to shareholders on what steps the company would take to narrow them. Excluding inside ownership, a majority of independent shareholders supported the proposal.
Board Accountability on Climate Change: Board oversight is critical to addressing climate risk. That’s why in 2018 we asked several companies to find out how their boards engage on climate. Specifically, we asked Travelers Insurance, Old Republic International and White Mountains Insurance to put in place effective oversight for climate change at the board level, including systems that allow for informed and thoughtful oversight and board decision-making that incorporates the consideration of environmental and social issues pertaining to both the underwriting and investing arms of their businesses. Outcome: We successfully withdrew our proposal at Travelers after the company published disclosure about the board’s oversight of climate risk, and we withdrew our proposal at White Mountains after that company agreed to implement the proposal. Our proposal with Old Republic received 48 percent support at the company’s annual meeting.

Climate Change: We filed a shareholder proposal with Kaiser Aluminum, asking the company to publish a sustainability report describing its policies, strategies, performance and goals on certain sustainability issues, including climate change. We withdrew our proposal when Kaiser agreed to expand its public sustainability disclosures. Outcome: The company published its first sustainability report in 2019.

Board Diversity: We asked US Foods Holdings and Beacon Roofing Supply to actively seek out women and minorities during director searches and to include board diversity in the board’s annual self-assessment process. Outcome: Both companies formalized a commitment to board diversity as a result, and later appointed diverse directors to their boards.

We’ve filed gender diversity proposals at 10 companies over the past several years; eight subsequently appointed female directors.

Gender Journey

US Foods Holdings had an all-male board of directors when we began talking with that company. It started with a shareholder proposal calling for the company to enhance its disclosures about board diversity and to provide investors with a better understanding of the company’s commitment to diversify. After an ongoing dialogue, the company agreed to actively seek more diverse candidates, and today US Foods has two women on its board of directors.

A conversation with Beacon Roofing Supply had a similar result. Beacon had an all-male board when we filed a shareholder proposal asking them to focus on gender diversity. After dialogue, Beacon modified its governance guidelines to commit to more diversity. Later in the year, the company appointed a woman to its board.
Collaborative engagements

We team up with other investors to catalyze progress on critical ESG issues. Among the many such collaborations during 2018, we:

- Signed onto a letter from the Thirty Percent Coalition, which works to increase diversity on U.S. corporate boards. The letter was sent to 156 companies with no women or a single woman on the board of directors, to find out what steps they are taking to diversify.

- We signed a letter organized by Farm Animal Investment Risk & Return (FAIRR), an investor network that raises awareness about the ESG risks and opportunities of intensive livestock production, that asked Ahold Delhaize to disclose information that would let investors to assess how the company is integrating protein diversification into risk reduction, business growth planning, product development and investment decisions. We also signed FAIRR’s Cerrado Manifesto Statement of Support to halt deforestation in the Cerrado and adopt sustainable land management practices and mitigate financial risks associated with deforestation and climate change.

- Signed a Ceres letter urging United States auto companies to publicly commit to lobby for stronger Corporate Average Fuel Economy (CAFE) standards.

- Signed an Investor Network on Climate Risk letter that raised concerns about the Alliance of Automobile Manufacturer’s stance on climate change and efforts to weaken the CAFE standards that are at odds with GM’s and Ford’s public positioning on climate change.

- Signed onto a letter encouraging carpet industry leaders to work together to make carpet recyclable — and to ensure it gets recycled.

- Signed two letters to 45 companies about greenhouse gas reduction targets.

- Signed a Principles for Responsible Investment letter to Nike, Johnson & Johnson and Target Corp. requesting a dialogue about cattle-linked deforestation.

- Signed a letter to Amazon.com Inc. to express concern about the company’s approach to shareholder engagement and to ask for a dialogue about ESG risks within the company’s operations and supply chains.

- Signed a letter urging companies in the energy sector to respond to the 2019 CDP Water Security Survey.

- Signed a statement asking for the government of Bangladesh to re-authorize the Bangladesh Accord, which is designed to protect garment workers.

- Signed a letter stating our opposition to the United States Department of Labor’s decision to remove Uzbekistan cotton from the list of products requiring federal contractor certification as to forced/child labor.
Public policy engagement

We use our voice to support or oppose public policy initiatives in our focus areas. For example, in 2018 we partnered with the U.S. Forum on Sustainable and Responsible Investment on a letter to the Environmental Protection Agency that expressed our opposition to repeal of the Clean Power Plan.

Also in 2018, when lobbyists began pressing the Securities and Exchange Commission to diminish shareholder engagement activity, we wrote a letter urging the commission to consider the business and financial case for shareholder engagement voting, stating, “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.”

We support public policy initiatives that promote greater corporate sustainability, transparency and accountability.
Engagement helps us encourage the companies we hold to improve in ways that make them even better investments.
We continue to partner with the following organizations to promote gender equality, address climate change and advance the field of sustainable investing. As part of an international company, we look forward to even greater collaboration with global colleagues and peers on key engagement issues where we can make an impact.

**Thirty Percent Coalition** – Pax World Funds is a founding member of the Thirty Percent Coalition, which seeks to ensure that women hold 30 percent of board seats across public companies in the U.S. More than 100 of the companies contacted by the coalition since 2012 have appointed women to their boards.

**Ceres** – The Ceres Investor Network on Climate Risk and Sustainability comprises more than 130 institutional investors, collectively managing more than $17 trillion in assets, advancing leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy. Executive Director of Client Service and Business Development for Impax Asset Management, David Richardson, served on the Ceres President’s Council in 2018.

**Principles for Responsible Investment (PRI)** – PRI is the world’s leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. Pax World Funds has been a signatory to these principles since 2007.

**US SIF (The Forum for Sustainable and Responsible Investment)** – US SIF’s mission is to rapidly shift investment practices towards sustainability, focusing on long-term investment and the generation of positive social and environmental impacts. Pax World Funds Chief Investment Officer Steve Falci served on the US SIF board of directors in 2018.

**CDP** – This network of investors and purchasers represents more than $87 trillion in assets and annually urge companies to report on climate risks and opportunities and take steps to reduce emissions. More than 5,600 companies worldwide have disclosed environmental information through CDP over the past 15 years.

**Investor Network on Climate Risk (INCR)** – This is a network of more than 110 institutional investors representing more than $13 trillion in assets who are committed to addressing the risks and seizing the opportunities resulting from climate change and other sustainability challenges.

**Task Force on Climate-related Financial Disclosures (TCFD)** – The TCFD develops voluntary, consistent climate-related financial risk disclosures that companies can use to providing information to investors, lenders, insurers, and other stakeholders. Impax Asset Management Founder and Chief Executive Ian Simm was one of the first 100 company leaders to publicly support the recommendations of the task force. In 2018, we published our first Pax World Funds TCFD report summarizing how our firm addressed risks and opportunities related to climate change during the previous calendar year. Read it here: [https://paxworld.com/TCFD](https://paxworld.com/TCFD).

**Climate Action 100+** – an initiative led by investors to engage with the world’s largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures. To date, 256 investors with more than $30 trillion in assets under management have signed on to the initiative.

**Investor Decarbonization Initiative** – a collaborative, global initiative uniting more than 100 influential businesses committed to 100 percent renewable electricity, working to massively increase demand for — and delivery of — renewable energy.
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.

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