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New Opportunities, New Challenges

By Julie Gorte, Ph.D., Senior Vice President for Sustainable Investing, Pax World

At the start of 2017, many people expected the newly elected administration to place numerous roadblocks before sustainable investing, and to deregulate in ways that freed companies to be as unsustainable as they wanted to be. Gloom and dread were the prevailing sentiments in sustainable investing.

Many of us, especially those who have been around for more than two decades, have been through some major political transitions before, and while they do change things, they never—not “almost never,” never—accomplish everything they promise during the campaign. Concern, preparation and extra effort are warranted when the winds of change blow against us, but despair is not. Here are a few examples of why.

We had a remarkably successful season of shareholder engagement in the first half of 2017. The largest success was a resolution that received a majority vote of over 67% at Occidental Petroleum that Pax World co-filed with the Nathan Cummings Foundation and Wespath Investment Management. The resolution asked the company to assess the long-term impacts of climate change on its business, something that every company should do if their business model is bonded to the fate of fossil fuels as a source of energy. The recent uptick in penetration of renewables into both the electricity generation market, and electric vehicles in the transportation market underscores the risks associated with business models that assume fossil fuels will be the dominant sources of energy for the foreseeable future.

Pax also co-filed climate change-related, or renewable energy-related, resolutions at UPS, ConocoPhillips and Dominion Resources. We were able to withdraw the resolution at UPS, and the votes at the others were 6.7% and 47.8%, respectively.

We continued our engagement on gender pay equality in 2017, expanding from the technology sector following successful engagements last year with Silicon Valley companies into financials. We achieved some progress in each of those engagements, though it wasn’t everything we wanted or asked for. Goldman Sachs, for example, agreed to publish a commitment to equal employment opportunity, including compensating all employees equitably at all levels. The company also agreed to analyze gender pay parity for U.S. employees across all job types and levels.

In all, we filed seven shareholder proposals asking that companies publish gender pay equity reports, and were able to successfully withdraw five of them after reaching agreements with the companies—Goldman Sachs, Bank of New York Mellon, Qualcomm, Verizon Communications, and AT&T—to do at least part of what we asked. Oracle’s shareholder proposal is going to a vote at the company’s annual meeting in November. The seventh, MasterCard, went to vote at the company’s annual meeting, and received a 7.8% vote in favor. That’s not a high vote, of course, but it’s enough to permit the resolution to be refiled next year. It can often take more than one year for shareholders to see the importance of certain issues, so a mediocre vote total the first year is not necessarily discouraging. The votes on climate change this year are ample proof: when shareholders first began filing proposals on climate change-related issues with the oil majors, the vote totals were often somewhere between low and, well, meh.

And that brings us to the macro picture, or the political landscape. As the time of this writing, the House of Representatives has passed the Financial CHOICE Act, one provision of which would make it essentially impossible for any but the very largest...
The Times they are a Changin'
By David Richardson, Global Head of Marketing & Client Service at Impax Asset Management

The road ahead looks very different from that in the rear-view mirror.

The global population is rising, as are standards of living, particularly in developing economies. As these standards rise, so does demand for animal-based, protein-rich diets, which require lots more feed grain to produce. Once abundant natural resources, such as clean water, are becoming scarcer. Aging infrastructure is threatened by both rising demand and long-term underfunding of repairs and upgrades. Pollution has become a systemic challenge to economic growth, as well as being a major threat to public health. Solving pollution challenges requires extensive and expensive measures, particularly in Asia. Perhaps most challenging of all, a warming climate is resulting in unpredictable and severe weather patterns and potentially disastrous geophysical consequences in the decades ahead.

Recognition of these global challenges is leading to a significant change in sentiment. Governments, businesses and investors have made commitments to reduce their environmental impact, and the transition towards a more sustainable global economy is underway. These trends will profoundly shape global markets, creating both risks and opportunities for investors. Innovative companies providing solutions to address environmental risks and opportunities are well positioned to benefit from this transition.

Defining Environmental Markets

Impax, subadviser to the Pax Global Environmental Markets Fund, has been investing in environmental markets for nearly 20 years and, in collaboration with the leading index provider FTSE, developed and continues to evolve the classification system that underpins the FTSE Environmental Markets Index series. This provides investors with a benchmark, and has led to the development of various index tracking products, attracting further investment into environmental markets.

We classify these as follows:

- New energy: alternative energy and energy efficiency
- Water: transporting, optimizing use, cleaning, and treating water
- Waste: reducing and recovering waste
- Food, Agriculture and Forestry: improving food quality, farming efficiency and reducing waste

Why Invest in Environmental Markets?

Higher growth in a low growth world

With the rising demand for environmental solutions, companies active in these markets have generally delivered higher growth in earnings than broader global equity markets. Given the powerful and rising macroeconomic drivers mentioned above, this trend looks set to continue for many decades.

Diversifying risks and opportunities

Investments in environmental markets can enhance portfolio diversification by providing exposure to innovative, high-growth companies that tend to be under-represented in broader market portfolios. These are often smaller high-tech companies that are not widely understood and often relatively under-researched by investment analysts. Exposure to these markets can also help to reduce carbon risk in portfolios, as these are the companies that will benefit if/when carbon taxes are imposed (e.g., energy efficiency) while avoiding sectors that will be most negatively affected (e.g., fossil fuels).

Future proofing portfolios

Investing in environmental markets is investing for the long-term transition to a more sustainable economy. Within the U.S., state and local politicians, universities, and business leaders, have pledged to reduce their carbon emissions. India, China and Europe have also reiterated their pledges to tackling climate change. India is investing billions of dollars into infrastructure development and tightening pollution regulations, while China’s current five-year plan, the 13th, has a strong focus on addressing environmental issues. It details plans for investing in clean water projects, a migration from coal to natural gas and a commitment to a major increase in the proportion of the country’s electricity produced from renewable sources (solar, wind and hydro). It is also promoting electric vehicles as part of its pledge to reduce air pollution.

Making a positive impact

Our primary objective is to deliver superior long-term, risk-adjusted returns. However, we have developed a sophisticated method, assured by EY, a leading sustainability consultant, in order to measure the positive environmental impact of an investment in the

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The Pax Ellevate Global Women's Index Fund is designed to capture investment returns associated with gender diversity and women's leadership. And the investment strategy is working.

The Fund has outperformed the MSCI World Index for the three-year period ending June 30, 2017. You can learn more in our press release available on our website. The Fund's strong three-year performance is consistent with research showing that where women are better represented on corporate boards and in executive management, companies perform better.

In August Pax unveiled an upgraded website. In addition to a redesigned look and feel, the website offers users enhanced navigation and better access to commentary from Pax investment and sustainability research professionals.

The annualized returns for the Pax Ellevate Global Women’s Index Fund — Individual Investor class as of 6/30/2017 were, 1 year: 16.46%, 3 year: 5.66%, 5 year: 11.02%, 10 year: 3.42%. The annualized returns for the Pax Ellevate Global Women’s Index Fund — Institutional class as of 6/30/2017 were, 1 year: 16.83%, 3 year: 5.93%, 5 year: 11.31%, 10 year: 3.68%. The returns for the MSCI World Index as of 6/30/2017 were, 1 year: 18.20%, 3 year: 5.24%, 5 year: 11.38%, 10 year: 3.97%. The returns for the Pax Global Women’s Leadership Index as of 6/30/2017 were, 1 year: 17.42% and 3 year: 6.50%. Total annualized returns for the Pax Global Women’s Index Fund operating expenses, gross of any fee waivers or reimbursements, for Institutional Class and Individual Investor Class shares are 0.65% and 0.90%, respectively, as of 5/1/2017 prospectus. Performance data quoted represent past performance, which does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For most recent month-end performance information, visit www.paxworld.com.

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. One cannot invest directly in an index.

See our website for a list of studies that illuminate the relationship between women’s empowerment and financial performance. http://paxworld.com/category research/gender

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Visit our website to learn how you can use the power of your investments to make a positive difference in the world. Watch the “Investing is Your Superpower” video at www.paxworld.com/superpower.

The environmental challenges ahead are real and daunting. However, solutions do exist and we are seeing an increasing number of innovative companies developing technologies to address these challenges.

For investors, there is one conclusion: the times, they are a changin’. The transition to a lower-carbon economy is underway, and investing in environmental markets means investing in companies that are providing environmental solutions and capturing exciting growth opportunities, while helping to maintain a better quality of life on our planet.
Pax World Moves Shareholder Services and Processing

To better serve our shareholders, we recently transferred mutual funds transaction processing, recordkeeping and shareholder services to a new provider, BNY Mellon Investment Servicing (US) Inc.

We believe that shareholders will benefit from the expertise, experience and technology that our new service provider offers. Shareholder account numbers, fund numbers and account options remain the same. Pax World's toll-free telephone number also remains the same.

Below is a list of what has changed with the conversion:

**New Online Account Access**

Our website has remained unchanged at www.paxworld.com. However, existing online account access users will need to re-register to establish a user ID and password in the new system. To re-register the first time you access the new system, you will be asked to enter your Social Security Number (SSN), account number, zip code and a valid email address. A one-time authentication code will be sent to the email address you provide, which you will use to complete your registration. The email address you use to receive your authentication code is separate from, and can be different from, the email address you provide for e-delivery and other Fund communications. If you do not currently utilize online account access, we encourage you to register by visiting www.paxworld.com and clicking the “Log In” link.

**New Mailing Address and Wire Instructions**

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<th>Standard Mail</th>
<th>Overnight Mail</th>
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**Purchasing by Wire:**

Bank: BNY Mellon, N.A.
Location: Boston, MA
ABA #: 011001234
Acct. #: 748110
Acct. Name: BNY Mellon as Agent FBO Pax World Funds
For Further Credit: Fund Name, Acct. Number, Shareholder Name
Mail is being forwarded from the Funds' previous service center addresses in Boston, MA and Canton, MA for a reasonable time, but to ensure timely processing of any transactions or maintenance requests sent by mail, please use the new addresses immediately.

**New Voice Response System**

Our new interactive voice response system uses the very latest technology and natural language understanding capabilities to provide a simple and user-friendly experience to access your account 24 hours a day, 7 days a week. The toll free number remains 1(800) 372-7827. The first time you call, you will enter your SSN and account number, then choose a Personal Identification Number (PIN). On future calls from the same telephone number, the last 4 digits of your SSN and your PIN will typically be all that is required. To speak to our Investor Service Representatives during regular business hours, just request a Representative at any point during your call.

If you have any questions about your account or the change in service provider, please contact our Shareholder Service Center at 1(800) 372-7827. Representatives are available to assist you between 8:00AM and 6:00PM ET, Monday through Friday.

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**NEW OPPORTUNITIES, NEW CHALLENGES CONTINUED from FRONT PAGE**

funds on the planet to ever file a shareholder proposal. Pax has been active in a coalition of investors that has mobilized to urge the Senate not to pass the Financial CHOICE Act, and has provided resources showing that the shareholder engagement process is aimed at improving company performance, and often does. We see engagement as a primary tool in our effort to invest sustainably, and make all investing more compatible with sustainability. That means working not only with companies in our portfolios, but working in the public policy arena when necessary to help assure that shareholders keep their right to communicate with their representatives—boards of directors—at companies they are part owners of.

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**Pax World Investments**

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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 Mid Cap Fund, Large Cap Fund, Core Bond Fund and the ESG Beta® Dividend Fund are new and have a limited operating history.

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