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Linking Investor Engagement with Financial Value

By Julie Gorte, Senior Vice President for Sustainable Investing

Shareholder proposals give investors of all sizes a direct line into boardrooms and executive suites. We file them when we see opportunities for companies in our portfolios to improve in ways that might make them even better investments, and over the years we've witnessed many companies make value-enhancing changes to their business as a result of our engagements and those of other investors. But lately it seems to have been open season on shareholder engagement, with a handful of groups, often funded by big business, ridiculing the activity as something that's driven by frustrated political activists with no financial acumen. Some of these critics have urged the Securities and Exchange Commission to consider measures that would make the shareholder proposal process less available to investors. An abundance of literature suggests that would be a mistake. Here's a sampling.

Goldman Sachs' equity research report "Shareholder Engagement in the Age of Transparency" says: "We believe shareholder resolutions can offer additional insight into emerging material risks and externalities for issues, as well as management responsiveness." The report also notes that support for environmental and social shareholder proposals has been rising for several years, with nearly 30 percent of votes going in favor of shareholder proposals.

A recent study² that looked at 847 engagements with 660 companies around the globe over a decade (2004-2014) found that successful engagements — those that *did* improve ESG performance — were correlated with higher sales growth without changing profitability.

Moreover, a portfolio of firms that were engaged by shareholders outperformed a matched portfolio of companies that were not engaged by 4.7 percent.

Results such as these help to explain why the votes in support of these proposals have gone up: They are about things that can and do affect financial performance. For example, of the proposals that did receive majority votes of support in 2018,³ the engagements

included topics that absolutely had financial relevance: the opioid crisis, coal ash risks, climate change and greenhouse gas emissions.

Climate change is one of the main topics in shareholder proposals, and it's another good example of the connection with financial value. If not addressed, climate change could cost us perhaps five percent of gross domestic product annually in perpetuity,⁴ and investors see it as a material source of several kinds of risk and opportunity. One recent paper⁵ constructed a portfolio that

"A portfolio of firms that were engaged by shareholders outperformed a matched portfolio of companies that were not engaged by 4.7 percent."

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Outstanding Outperformance

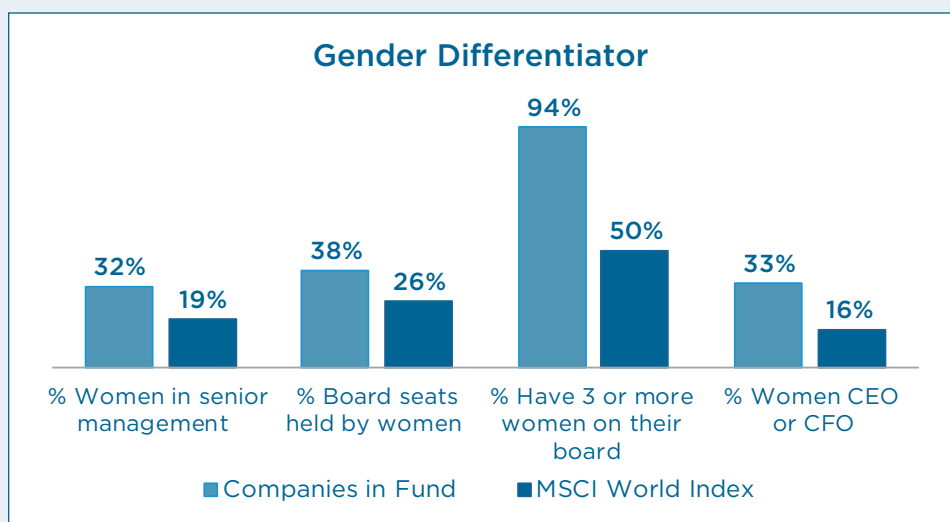
The Pax Ellevest Global Women's Leadership Fund outperformed its benchmark, the MSCI World Index, for the one-year, three-year and five-year periods ending June 30, 2019. For the five-year period since June 30, 2014, the Fund's institutional class shares have returned 7.68% and its investor class shares have returned 7.41%, exceeding the MSCI World Index return of 6.60%.¹

The Fund's strong performance is consistent with research showing that companies perform better when they have more gender diversity in leadership positions.²

Learn more about the construction and evolution of the Pax Ellevest Global Women's Leadership Fund in our latest whitepaper, "Gender Diversity Delivered: Results from Five Years of Investing in Women," available at paxworld.com/gender-delivered. **X**



¹The annualized returns for the Pax Ellevest Global Women's Leadership Fund — Investor Class — as of 06/30/2019 were, 1 year: 8.59%, 3 year: 12.19%, 5 year: 7.41%, 10 year: 9.51%. The annualized returns for the Pax Ellevest



Among the companies in the Fund, women hold 38% of board seats and 32% of senior management positions, as compared to 26% and 19%, respectively, for companies in the MSCI World Index.³

Global Women's Leadership Fund — Institutional Class — as of 06/30/2019 were, 1 year: 8.87%, 3 year: 12.49%, 5 year: 7.68%, 10 year: 9.78%. The returns for the MSCI World Index as of 06/30/2019 were, 1 year: 6.33%, 3 year: 11.77%, 5 year: 6.60%, 10 year: 10.72%. The returns for the Impax Global Women's Leadership Index as of 06/30/2019 were, 1 year: 9.28%, 3 year: 12.55% and 5 year: 7.96%.

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.

Total annual Pax Ellevest Global Women's Leadership Fund operating expenses, gross of any fee waivers or reimbursements, for Institutional Class and Investor Class shares are 0.56% and 0.81%, respectively, as of 5/1/2019 prospectus.

²<https://paxworld.com/category/research/gender/>.

³MSCI World Index, Impax Gender Analytics, 2019.

LINKING INVESTOR ENGAGEMENT WITH FINANCIAL VALUE, CONTINUED from FRONT PAGE

had long positions in more carbon-efficient firms and short ones in carbon-inefficient firms, and that portfolio generated abnormal returns of 3.5-5.4 percent per year.

These are only a few examples of a large and robust body of literature linking better sustainability performance with better financial performance. **X**

¹Derek R. Bingham, Tristyn Martin, Sharmini Chetwode, Christopher Vilburn, Evan Tylanda and SoYoung Lee, "Shareholder Engagement in the Age of Transparency," Goldman Sachs Equity Research, June 12, 2019.

²Tamas Barko, Martijn Cremers, Luc Renneboog, "Shareholder Engagement on Environmental, Social, and Governance Performance," European Corporate Governance Institute, May 31, 2017.

³Heidi Welsh, "Proxy Season Review: Social, Environmental & Sustainable Governance Shareholder Proposals in 2018," Sustainable Investments Institute, Nov. 9, 2018.

⁴Nicolas Stern, "The Stern Review: The Economics of Climate Change," Cambridge University Press, March 2014.

⁵Soh Young In, Ki Young Park, Ashby H.B. Monk, "Is 'Being Green' Rewarded in the Market?: An Empirical Investigation of Decarbonization and Stock Returns," Stanford Global Projects Center, April 19, 2019.

This is an abbreviated version of an article that first appeared on the Pax World Funds site. To read the full version, visit paxworld.com/engagement-value



Pax World Funds News

A couple of "bests"

In August, Environmental Finance announced the winners of its Sustainable Investment Awards, which recognize investors who have been leaders in the field of sustainable finance. We're delighted to report that the **Pax Global Environmental Markets Fund** was recognized as the "best environmental fund" and our London-based parent company, Impax Asset Management, was named "best boutique asset manager of the year." **X**



On the shortlist

The **Pax Ellevest Global Women's Leadership Fund** is in the running for an Ethical Corporation Responsible Business Award. The Fund is one of six finalists in the "responsible investment" category. The Ethical Corporation's Responsible Investment Award recognizes any responsible investment initiative that has delivered measurable results on key environmental and social issues. It rewards initiatives that showcase innovative, transformational and long-term outcomes. The winner will be announced October 2. (Pax World Funds paid a nomination fee to be considered for this award.) **X**



New Pax Insights

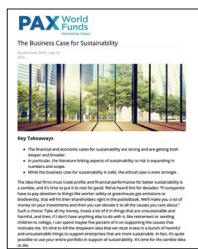
New perspectives from Pax World Funds experts are available at paxworld.com/insights



The Expanding Universe of Fixed Income Impact Investments

As sustainable bond markets expand into new sectors and across more impact themes, so does the portfolio construction playbook and the ability to add value through ESG due diligence. In the article "The Expanding Universe of Fixed Income Impact Investments," Yvonne Tai and Greg Hasevlat discuss our ESG fixed income approach and provide examples of impact options that we've invested in — and some that we've avoided.

Read the article at paxworld.com/expanding



The Business Case for Sustainability

The financial and economic cases for sustainability are strong and are getting both deeper and broader. Julie Gorte explores the landscape in the article "The Business Case for Sustainability."

Read the article at paxworld.com/business-case

Conversation Pieces



“ It shouldn't be surprising that shareholders are voting against (all-male) boards. It's fair play. **”**

Joe Keefe, President

"All-Male Boards Feel Investors' Wrath"

Agenda, July 26

“ A lot of people see publicly traded water utilities as water privatizers,” but in reality, “municipalities often contract with water utilities” and regulate their service provision. **”**

Julie Gorte, Senior Vice President for Sustainable Investing

"As Fresh Water Grows Scarcer, It Could Become a Good Investment"
The New York Times, July 11

“ There just aren't enough great high-yield rated green bonds to go around. **”**

Peter Schwab, Portfolio Manager, Pax High Yield Fund

"Junk Debt Investors Welcome Rare Green Bond with Strong Demand"
Bloomberg, July 1

“ Put diversity in diversification. By investing in the S&P 500, you are overweight in older, white males. **”**

Joe Keefe, President

"Interview with Pax World Funds President Joseph Keefe"
InvestmentNews, July 15

The S&P 500 Index is an unmanaged index of large capitalization common stocks. One cannot invest directly in an index.

Shareholder Corner: Prevent Asset Transfer by Keeping Your Account Active

Escheatment/unclaimed property laws are in place so your state can act as custodian to 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 doesn't contact their mutual fund for a length of time determined by each state — typically between three and five years. Once assets are

transferred, the owner must contact the state directly to claim them.

It's important to know your state's inactivity rules, but it's even more important to keep your account active to prevent your assets from being transferred due to inactivity. Luckily, it's easy to keep your account active — you can check your balance, place a trade or update your contact information, for example, simply by logging in to your

account at paxworld.com or calling Investor Services at 800.372.7827.

If your account has been inactive and is in danger of escheatment, you will receive a letter from Pax World Funds that offers step-by-step instructions on how to re-activate it. If you receive a letter, please reactivate as soon as possible in order to prevent the transfer of your assets. **X**

How to choose e-delivery in three easy steps

- 1** Log into your account at paxworld.com/account.
- 2** Go to the “account options” menu.
- 3** Select “e-delivery option.”

We believe e-delivery is the best option for our shareholders and our planet's natural resources. Your reports are available sooner because there is no added time for printing and mailing, which also reduces our use of paper and ink. But if you ever need a printed copy, you can always request one free of charge, by calling 800.767.1729 or emailing info@paxworld.com. Thank you for being a sustainable investor!



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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 Pax World Funds involves risk, including loss of principal. Past performance does not guarantee future results.

RISKS: Equity investments are subject to market fluctuations, the fund's share price can fall because of weakness in the broad market, a particular industry, or specific holdings. The Fund does not take defensive positions in declining markets. The Fund's performance would likely be adversely affected by a decline in the Index. Investments in emerging markets and non-U.S. securities are generally less liquid and less efficient than investments in developed markets and are subject to additional

risks, such as risks of adverse governmental regulation, intervention and political developments. There is no guarantee that the objective will be met and diversification does not eliminate risk. Funds that emphasize investments in 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 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. Performance for the MSCI World Index is shown “net,” which includes dividend reinvestments after deduction of foreign withholding taxes. One cannot invest directly in an index.

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