PAX World Funds
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Connection

Fall 2020 | A Newsletter for Sustainable Investors

INSIDE

Letter to Shareholders

Making our voices heard with public policymakers has been part of our firm's work for almost five decades, but this year it has demanded more attention than usual.

In July, we submitted a public comment to the U.S. Department of Labor (DOL) expressing our opposition to its proposed rule that seeks to discourage retirement plans from investing in funds that integrate a sustainability, or environmental, social and governance (ESG), focus. The proposed rule mistakenly contends that the inclusion of ESG funds leads to lower returns and higher risk and deems ESG factors as "non-pecuniary" — which essentially means not material.

The disconnect between the proposed rule and the actual evidence could hardly be more profound. In our letter to the Employee Benefits Security Administration we cite more than 300 research studies that underscore the materiality of ESG factors. In our view, ignoring them, rather than incorporating them, is where fiduciary duties are more likely to be breached. You can read our letter on this page: www.impaxam.com/dol/. It was one of more than 8,600 comments submitted to the DOL, 95 percent of which expressed opposition.

We've also written to the U.S. Securities and Exchange Commission (SEC). In June, we filed a petition for rulemaking asking the commission to require companies to disclose the precise locations of their significant assets. Having this information will help investors, analysts and financial markets better assess the physical risks companies face in connection with climate change and better avoid increasingly frequent and severe weather-related shocks. You can read our petition on this page: www.impaxam.com/sec.

There's another reason it's important to know companies' physical locations: environmental justice. As we have seen during the pandemic, environmental stressors can contribute significantly to the higher mortality rate among racial minorities in the United States. This is simply not acceptable. Companies that operate in areas where the surrounding demographics are disproportionately racial and ethnic minorities need to take steps to curtail pollution and to report publicly on the demographics of areas in which their operations can possibly harm human health. We'll soon begin asking the companies in our portfolios to do just that.

At Impax, we believe that investing in the transition to a more sustainable economy also means investing in the transition to a more just society — one that values the lives, livelihoods and talents of every single person. We'll continue pressing companies as well as public policymakers on these issues.

Sincerely,
Joseph F. Keefe,
President

Public policy advocacy is only one facet of our engagement work. Learn more about the full breadth of that work in our latest Engagement Report.

www.impaxam.com/engagement

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Navigating Large Caps with a Sustainability Lens

The Pax Large Cap Fund portfolio management team discusses volatility and sustainable investing opportunities

Andrew Braun, Portfolio Manager, Pax Large Cap Fund

Barbara Browning, CFA®, Co-Portfolio Manager, Pax Large Cap Fund

What differentiates your strategy from other active large cap equity funds?

Andrew Braun: It starts with our firm's overall focus on the transition to a more sustainable economy. We see this transition as a move from a more depletive economic model, where externalities are largely ignored, to a more sustainable economy with improved ESG outcomes. We think this will have profound implications as to which industries and companies will face tailwinds and which ones will face gale-force headwinds.

This philosophy shapes the proprietary ESG research and tools we use in our investment process, such as the Impax Sustainability Lens and Impax Sustainability Score, which help us identify the sub-industries and companies that are well positioned for this transition. We believe the deliberate and consistent use of these tools has helped translate into strong performance.

Tell us more about the role the Impax Sustainability Lens and Impax Sustainability Score play in your process?

Barbara Browning: The Impax Sustainability Lens is a top-down tool that analyzes all global sub-industries to determine which areas of the market present higher opportunity and lower risk in connection with the transition to a more sustainable economy. The Impax Sustainability Score[1] is a bottom-up tool that ranks large cap companies on their ESG performance within sectors.

These tools are complementary in that the Lens guides our research efforts toward what we believe are advantaged areas of the economy, and the Score points us to ESG leaders within those industries. In combination, the tools help generate new ideas, and they also help as a starting point for more in-depth company-level ESG research. For example, the Sustainability Lens provides perspective about the various sustainability opportunities and risks that a company may have in a particular industry. Through a more in-depth evaluation at the company level, we can then determine whether the company is properly managing those risks.

The end result is a bottom-up constructed portfolio of ESG leaders that is tilted toward areas of the market with greater than average sustainability opportunities and away from areas with greater sustainability risks. We are very mindful that the overall portfolio statement is one that mirrors our philosophy. We think this transition will have profound implications as to which industries and companies will face tailwinds and which ones will face gale-force headwinds.

It has been a tumultuous year for the stock market. How has that affected your portfolio?

Braun: Halfway through the year and we are pleased to report that the Fund has performed relatively well.

In the downdraft of the first quarter our preference for higher quality companies with less leverage helped. Also, prior to the market plunge in the first quarter, we added to companies with business models that we thought would be more resilient.

Fortunately, around the time of market lows, we initiated new positions and added to existing portfolio holdings opportunistically where we saw the market unduly punish the future prospects of pretty good companies. While we are long-term investors, our approach is flexible enough that we can pivot and adjust to the market environment on the margin.

Where are you finding the most interesting sustainability opportunities?

Braun: We are bottom-up investors, so our sector and industry allocations are driven by stock selection, not top-down bets. That said, we have identified a number of themes, sustainability "megatrends" that we feel should persist for the next decade or longer. I have two company examples that provide a sense of these trends in the portfolio.

The first example relates to the resource efficiency trend. We own shares in Trane Technologies, which produces energy-efficient HVAC equipment for corporate and retail uses. These products save energy and money, so upgrading equipment is a win-win proposition for customers, manufacturers and the environment. The company excels at reducing energy intensity in buildings, reducing greenhouse gas emissions, reducing waste of food and other perishable goods, and generating productivity for its customers.

A second example is one of the most powerful megatrends to invest in today — cloud computing. The transformation of data storage and analysis from on-premises solutions to the cloud is helping corporations manage the explosion of data that has been captured in recent years in an incredibly cost-efficient and

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Environmental Impact by the Numbers

We have measured the environmental impact of our Pax Global Environmental Markets Fund every year for the last four, and each year we have seen its expanding positive impacts related to water, waste, renewable energy and CO2 emissions. 2019 was no exception.

For every $10m invested in the Fund in 2019, there were:

- 1,400 tons of carbon dioxide emissions avoided
- 160 million gallons of water treated, saved or provided
- 1,240 MWh of renewable electricity generated
- 2,220 tons materials recovered/ waste treated

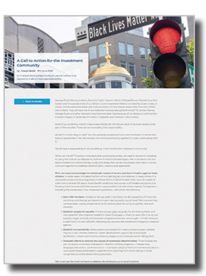
These gains reflect the increased efficiency with which the Fund's portfolio companies are providing environmental and resource solutions. The Fund is catalyzing the transition to a more sustainable global economy — as are those who invest in it.

Total water treated, saved or provided	160m gallons
Number of households' equivalent water consumption	1,210
Total renewable electricity generated	1,240 MWh
Number of house-holds' equivalent electricity consumption	110
Total materials recovered/ waste treated	2,220 tons
Number of households' equivalent waste arising	1,070

Source: Impax Asset Management Ltd. Impact of $10m invested in the Fund for one year. Based on most recently reported annual environmental data for holdings in the Pax Global Environmental Markets Fund as of December 31, 2019. Impax's impact methodology is based on equity value. MWh stands for megawatt hour. Total materials is measured in U.S. tons.

New Pax Insights

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



A Call to Action for Investors

All investors have a responsibility to use the tools at their disposal to make a more equitable society, writes Joe Keefe in this call to action for the investment community.

Read the article at **www.impaxam.com/action**

The Financial Impact of Diversity

Julie Gorte explores the expanding body of literature highlighting the positive relationship between diversity and financial performance in her latest research roundup.

Read the article at **www.impaxam.com/diversity**

Conversation Pieces

“It's interesting how a pandemic can change the perception of a company practically overnight.”

Andrew Braun, Portfolio Manager, Pax Large Cap Fund
Agenda, July 27

“The pandemic has highlighted the fact that companies that operate sustainably are the best at weathering a crisis.”

Julie Gorte, Ph.D., Senior Vice President for Sustainable Investing
FA Magazine, July 7

“We're looking for social bonds that are addressing immediate needs related to the pandemic across a wide range of areas, including the treatment of patients and supporting the healthcare industry in their response to the pandemic.”

Greg Hasevlat, Vice President, Sustainability Research Analyst
CleanTechIQ, June 3

energy-efficient manner. Microsoft, whose Azure cloud computing service has been growing at more than 60% per year recently, has been able to pivot from its legacy strength in enterprise applications to its current strong growth and leadership in cloud infrastructure and digital transformation.

What do you see as longer-term implications of COVID-19?

Browning: Within Technology, we believe cloud computing and software-as-a-service companies will continue to benefit from accelerated remote access and data security due to the crisis.

In the Healthcare sector, there are companies that should benefit from the crisis, as pharmaceutical companies race to develop therapies and vaccines and diagnostic testing companies help to pinpoint outbreak areas so health officials can minimize the virus's spread.

We are also monitoring de-urbanization, which would be a marked reversal of a multi-decade trend toward urbanization. Beneficiaries of a trend toward de-urbanization would be home improvement stores and home builders.

Regarding Pax Large Cap Fund engagement activities, what issues has the team been focused on, and how have companies responded?

Browning: Broadly, our sustainability team has been engaging with companies on topics such as climate risk, gender and racial equality and sustainability reporting. Notably, within the Large Cap Fund holdings, many recent engagements have focused on diversity and pay equity at companies including T-Mobile, Citizens Financial Group and Voya Financial.

Generally, companies have been quite amenable and responsive to these engagements. And it makes sense, because forward-looking companies want to be well-positioned to compete in a more sustainable economy. They understand our position on these ESG issues and that long-term improvements can lead to better outcomes. Where adequate equality policies have not existed, they have been willing to adopt better processes and prepare more comprehensive disclosures.

T-Mobile is a good example of positive collaborate engagement. In 2019, we filed a shareholder proposal that asked the company to prepare a report about steps it was taking to foster greater diversity on its board of directors. T-Mobile responded immediately, arranged a dialogue and subsequently published on its website its Director Selection Guidelines, which commits the company to include women and minority candidates in the pool from which the nominating committee selects director candidates. In early 2020 we withdrew our shareholder proposal based on this progress. X

[1]The Impax Sustainability Score is a proprietary ranking of companies' ESG performance.

As of 6/30/20, Trane Technologies plc was 2.4% of holdings of the Pax Large Cap Fund, 1.0% of the Pax Sustainable Allocation Fund, 0.1% of the Pax ESG Beta Dividend Fund, 1.9% of the Pax Global Environmental Markets Fund, and 0.1% of the Pax Ellevate Global Women's Leadership Fund. Microsoft Corporation was 3.2% of holdings of the Pax Sustainable Allocation Fund, 6.5% of the Pax Large Cap Fund, 0.6% of the Pax Core Bond Fund, 5.0% of the Pax ESG Beta Dividend Fund, 5.0% of the Pax ESG Beta Quality Fund, 4.6% of the Pax Global Opportunities Fund, and 5.1% of the Pax Ellevate Global Women's Leadership Fund. T-Mobile was 1.1% of holdings of the Pax Sustainable Allocation Fund, 2.6% of the Pax Large Cap Fund, 0.2% of the Pax Core Bond Fund, and 1.2% of the Pax high Yield Bond Fund. Citizens Financial Group was 1.4% of holdings of the Pax Large Cap Fund, and 0.6% of holdings of the Pax Sustainable Allocation Fund. Voya Financial was 1.1% of holdings of the Pax Sustainable Allocation Fund, and 2.5% of the Pax Large Cap Fund, 1.3% of the Pax Small Cap Fund, and 1.4% of the Pax Ellevate Global Women's Leadership Fund. Holdings subject to change.

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

These strategies may produce returns that are different than if decisions were based solely on investment considerations and could result in either underperformance or outperformance of the market as a whole.

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.

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