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
Navigating Large Caps with a Sustainability Lens

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

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® 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
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
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 collaborative 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 withdrew our shareholder proposal based on this progress.

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.

Voya Financial Group was 1.4% of holdings of the Pax Large Cap 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.

The Impax Sustainability Score is a proprietary ranking of companies’ ESG performance.

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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.impaxam.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.

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.

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