Connection

Pax World Investments | For Tomorrow®

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INSIDE

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Paradigm Shifts in Investing: Climate Change and Impact

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

According to Wikipedia, a paradigm shift is a "profound change in a fundamental model or perception of events." Right now, we're in the midst of two paradigm shifts: the impact of investments and climate change.

Investing for Impact

We are experiencing a significant change in how most people think about the impact of their investments, which for most of us is in the context of a retirement plan. In the past, a lot of people either didn't bother to consider the relationship between impact and investing, or they followed the accepted wisdom of many players on the financial markets: let us manage your money for you, and then if you want to do something charitable with the returns, that's up to you. The prevailing wisdom was that if you tried to combine your wish for impact with the management of your portfolio, you would sacrifice returns.

If that was ever true, it's certainly not now. Of course, there are always going to be funds that outperform and underperform, but there is substantial and robust literature, spanning decades, showing that sustainable investing routinely performs as well as, and sometimes outperforms, non-ESG approaches. We've collected hundreds of these studies, and provide links to some of the most useful and interesting ones on the Pax World website.[1]

It's also noteworthy, and not coincidental, that our own Pax Ellevate Global Women's Index Fund outperformed its benchmark, the MSCI World Index,[2] for the two-year period ending June 30, 2016.* We don't think that's happenstance: research indicates that better representation of women in decision-making roles—boards and executive management—is positively and significantly linked to better financial performance. Links to some of the studies that validate that notion are on Pax Ellevate's website as well.[3]

So, not only is sustainable investing providing competitive returns, but the impact we generate can be had in any strategy, not just in private equity, the taskbar where most people pin "impact investing." Last year, we filed a shareholder proposal at Apple, asking the company to report on pay ratios by gender and disclose policies regarding closing the gender pay gap. We were able to withdraw that shareholder proposal after Apple committed to explore specific actions the company could take to address pay equity. And at Apple's Annual Meeting in February, CEO Tim Cook announced the results of the company's gender pay assessment and stated that the company is committed to closing the pay gap. *That is impact*. Would it have happened if we hadn't urged it? Maybe—but I don't think that would have happened this year. We fully expect that impact to extend beyond Apple: we also cofiled similar resolutions at eBay, Inc., and Amazon.com Inc., with Arjuna Capital and saw similar results. As additional large, leading companies make this commitment, it will be harder for anyone else in their industry—or indeed anyone else—to resist.

Climate Change

Climate is another paradigm shift, not just in investment, but for the entire planet. This year marks a sad milestone in climate change: the first species extinction attributable to climate change. The world may not be rocked by the loss of the Bramble Cay melomys, but the implication is far greater: this is the kind of peril we create when we knowingly continue to emit greenhouse gases. And that's why we filed or cofiled shareholder resolutions at Verizon Communications, Inc., Nucor Corp., Duke Energy and American Electric

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Environmental Markets – Center Stage for the Resource Revolution

By Nicola M. Fritz, CAIA, Associate Director, Portfolio Specialist, Impax Asset Management
David W. Richardson, CFA®, Managing Director, Global Head of Marketing and Client Services, Impax Asset Management

A recently published report by the UN Environment Program (UNEP)[1] sheds new light on the speed with which the global economy is depleting Earth's natural resources. The study presents for the first time a detailed and comprehensive look at the 'material intensity' of the world economy.

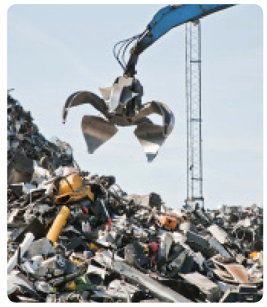
The picture that emerges is, of course, a central reason for the adoption of the Sustainable Development Goals by more than 190 countries in December 2015 in Paris as part of COP21[2]: Over the last 40 years, the world's population has almost doubled, the global economy has expanded more than threefold, and so has material extraction. The report warns that "the global economy now needs more materials per unit of gross domestic product (GDP) than it did at the turn of this century… and is already surpassing some environmental thresholds or planetary boundaries."

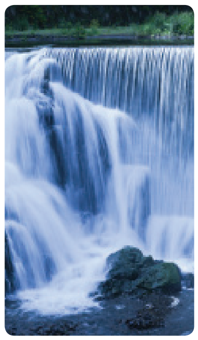
Resource Optimization

Global consulting firm McKinsey & Associates predicts a new era on the horizon—the 'Resource Revolution.'[3] McKinsey believes winning businesses will redesign products and services using approaches such as optimization, circularity and waste elimination. As outlined in the UNEP report, material consumption is a barometer for environmental stress, and waste and pollution represent natural resource *inefficiencies*. From an investor's point of view, optimizing the use of resources can make financial as well as environmental sense.

Opportunities within the Environmental Markets

At Impax Asset Management, the investment philosophy that we apply to the Pax Global Environmental Markets Fund centers precisely on these urgent themes. We recognize that an unprecedented opportunity lies ahead for innovative companies with a focus on natural resource efficiency. Similar to the benefits of sophisticated information technology, advances in environmental technology are fueling a changing landscape for natural resource efficiency.





We define the opportunities within the environmental markets through four broad categories: Energy, Water, Waste and Food & Agriculture. The list of companies within these categories is varied and deep, and growing fast—1,500 businesses across the globe of varying size, focus and end markets.

Energy

In our view the best opportunities in Energy are not in conventional energy, but in sub-sectors such as Energy Efficiency and Renewable Energy. Examples include a U.S. automotive company that produces components which help vehicles achieve rising fuel efficiency standards and lower CO_2 emissions; and a wind farm developer and operator in Portugal with a global portfolio of installations that generates renewable electricity for millions of households.

Water

Water treatment and pollution control is an urgent need and fast growing sector. Much of the global water infrastructure is old, often leaking, or in some countries, still being built. Investment opportunities include a U.S. company that specializes in 'all things' water, from pumps for flood mitigation to building hybrid auto/water tunnels to smart water meters; and a U.S. manufacturer of water and fluid related engineering equipment for optimized flow and metering.

Waste

Recovering resources is often more profitable than producing new materials. Recycling and reuse is a powerful way to reduce the impact from material use on our planet. Investment opportunities include a Belgian materials technology company which produces automotive catalysts and recycles rare materials from discarded smart phone batteries and other electronic equipment, and a U.S. packaging firm which specializes in corrugated materials and sources 45 percent of its fibers from recycled content.

Food, Agriculture & Forestry

Feeding, housing and clothing an increasingly populous planet requires greater efficiency and less waste across the food, agriculture and forestry markets. Investment opportunities include a U.S. packaging company which helps to reduce food spoilage and materials use through innovative packaging; and a fish farm in Norway which has collaborated with the World Wildlife Fund (WWF) since 2008 on sustainable aquaculture practices.

Looking Toward a Sustainable Future

Resource optimization is now firmly on the policy radar for governments globally. We believe that environmental challenges and the opportunities to mitigate these challenges are currently the strongest they have been for many decades. Ian Simm, Chief Executive of Impax, predicts that "an amazing opportunity lies ahead for the private sector to mobilize capital to help address environmental problems and lay the foundation for sustainable development."

Impax Asset Management is subadviser to the Pax Global Environmental Markets Fund.

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[1] Global Material Flows and Resource Productivity - Assessment Report for the UNEP International Resource, ISBN: 978-92-807-3554-3, 2016, United Nations Environment Programme http://unep.org/documents/irp/16-00169_LW_GlobalMaterialFlowsUNEReport_FINAL_160701.pdf

[2] COP21 is short for the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change.

[3] "Are you ready for the resource revolution?" McKinsey Quarterly, March 2014 http://www.mckinsey.com/business-functions/sustainability-and-resource-productivity/our-insights/are-you-ready-for-the-resource-revolution

Pax World News

$100 Million in Assets

In August, the Pax Ellevate Global Women's Index Fund reached $100 million in assets under management. The Fund—a broadly diversified global mutual fund that invests in the highest-rated companies in the world for advancing women's leadership—crossed this asset mark as it achieved another recent milestone, outperforming the MSCI World Index for the two-year period ending June 30, 2016.[*]

45 Years of Sustainable Investing

On August 10, 1971, the Pax Balanced Fund opened, becoming the first mutual fund in the U.S. to integrate environmental, social, and governance (ESG) factors into financial analysis and decision-making. Today, the Fund continues to provide investors with the opportunity to align their investments with their values and do so in a fully diversified and risk-managed portfolio.

Expense Reductions

Pax World is pleased to note that on April 1, 2016, the Pax Ellevate Global Women's Index Fund expenses were lowered across share classes by 9 basis points.[1] Also, on June 30, 2016, the Pax Global Environmental Markets Fund expenses were lowered across share classes by 17 basis points.[2]

Best Company to Work for in NH

Pax World was recognized as a 2016 Best Company to Work For in New Hampshire. Each year *Business NH Magazine* and NH Businesses for Social Responsibility judge companies statewide on benefits, company culture, employee development strategies, wellness programs, family friendly policies, and an employee survey. The finalists, including Pax World, were profiled in the September 2016 issue of *Business NH Magazine*.

Award Recognition – Impact Report

Pax World has published sustainability data annually since 2010 when we became a signatory to the United Nations Global Compact. Our 2014 Impact Report was recently recognized as runner-up in the category of "Best RI Report by an Asset Manager" at Responsible Investor's RI Awards. The Impact Report reviews our progress as an asset manager committed to sustainable investing principles and as a business that seeks to operate in a manner consistent with the ESG standards we integrate into our portfolios.

Received by: Greg Hasevlat, Sustainability Research Analyst, Portfolio Manager, Pax MSCI International ESG Index Fund, Pax World. Presented by: Eric Moen, Managing Director and Head of ESG Products, MSCI.

[1]A basis point (bps) is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.

[2]Effective April 1, 2016, the Adviser to the Pax Ellevate Global Women's Index Fund (the "GWIF Fund") has agreed to reduce its advisory fees from an annual rate of 0.74% of the Fund's average net assets to 0.65% of net assets. These changes result in the overall expenses of the GWIF Fund (or Net Annual Fund Operating Expenses) changing from the rate of 0.74% (institutional class) and 0.99% (individual class) of the GWIF Fund's average net assets for the last fiscal year to a lower annual rate of 0.65% (institutional class) and 0.90% (individual class) of net assets, which reduces the expenses borne by GWIF Fund shareholders by approximately 0.09%, as a percentage of average net assets. Effective June 30, 2016, the investment adviser to the Pax Global Environmental Markets Fund (the "GEM Fund") has agreed to lower the Management Fee of the GEM Fund from 0.90% to 0.80% and contractually agreed to reimburse expenses (excluding Acquired Fund Fees and Expenses, if any) allocable to Institutional Class, Individual Investor Class, Class A and Class R shares of the Global Environmental Markets Fund to the extent such expenses exceed 0.98%, 1.23%, 1.23% and 1.48% of the average daily net assets of the Institutional Class, Individual Investor Class, Class A and Class R shares, respectively.

What's new on paxworld.com

Have you visited Pax World's website recently? You may be interested in our new content including commentaries, advocacy updates and product news.

Spotlight on Engagement: Climate Change

Spotlight on Engagement: Impact Investing

We seek to invest in a way that promotes positive social and environmental change. Read our two latest *Spotlight on Engagement* pieces to learn how Pax World is making an impact.

The Benefits of an Automatic Investment Plan

Keep your savings on track year round with an Automatic Investment Plan (AIP)

With a Pax World AIP—available for all Pax World Funds—you can invest a designated dollar amount at regular intervals. This helps you to pay yourself first, a simple and effective way to save. Also, when you invest automatically on a regular schedule, you'll spend less time analyzing and worrying about the right time to invest.

To start an AIP, download and complete the Shareholder Services form at **paxworld.com**. If you have a bank account attached to your Pax World account already, you can also establish an AIP online.

PARADIGM SHIFTS IN INVESTING: CLIMATE CHANGE AND IMPACT CONTINUED from FRONT PAGE

Power (AEP) asking that the companies report to shareholders on policies and progress toward more sustainable models of business all aimed at reducing our impact on the climate.

The specific "asks" were different for the different companies—at AEP, for instance, we asked the company to assess the risks that its coal assets will be stranded as a result of regulatory initiatives aiming to keep future climate change below 2° C. At Duke Energy, we asked that the company assess the impact of changes in the electric utility industry aimed at limiting future climate change, particularly with regard to distributed generation and energy efficiency.

Pax cofiled both of these resolutions, one with As You Sow and one with the Nathan Cummings Foundation. All three of us are part of a broad coalition of investors—asset managers, asset owners, and nonprofits—working to advance sustainability through shareholder engagement. That is coordinated by Ceres, a non-profit organization advocating for sustainability leadership, of which Pax has long been a member. One of the best ways to advance impact is in cooperation with other investors, and while we all wish that impact was faster in coming, we all also know that everything we're doing is at least moving things in the right direction. Without our efforts, it's business as usual (BAU). And with respect to climate and other sustainability issues, the BAU scenario is unpleasant at best, and more likely increasingly disastrous.

The efforts to advance impact for sustainability and avoid catastrophic climate change are long-term propositions—that need to start now. There's a reason that Pax's motto is "For Tomorrow." While we are prepared to deal with the fallout of major economic developments, we also know that sustainability has a lasting effect that often outweighs political and economic events.

[1]http://paxworld.com/about/sustainable-investing

[2]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 indexes: 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. Returns are shown net which includes dividend reinvestments after deduction of foreign withholding tax. One cannot invest directly in an index.

[3]http://www.paxellevate.com/resources/gender-research

As of 6/30/16, Apple, Inc. was 2.6% of the Pax ESG Beta Quality Fund and 1.5% of the Pax Balanced Fund. American Electric Power was 0.2% of the Pax Ellevate Global Women's Index Fund. Duke Energy Corporation was 0.4% of the Pax Ellevate Global Women's Index Fund. Verizon was 0.1% of the Pax Balanced Fund, 2.8% of the Pax ESG Beta Quality Fund, and 1.4% of the Pax Ellevate Global Women's Index Fund. Nucor Corporation was not held by any Pax World Fund. Holdings are subject to change.

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

There is no affiliation between Pax World, ALPS Distributors Inc. and the companies listed within the articles in this newsletter.

*The annualized returns for the Pax Ellevate Global Women's Index Fund – Individual Investor class as of 06/30/2016 were, 1 year: 0.48%, 2 year: 0.65%, 5 year: 5.92%, 10 year: 3.23%. The annualized returns for the Pax Ellevate Global Women's Index Fund – Institutional class as of 06/30/2016 were, 1 year: 0.69%, 2 year: 0.87%, 5: year 6.17%, 10 year: 3.50%. The returns for the MSCI World Index as of 06/30/2016 were, 1 year: -2.78%, 2 year: -0.70%, 5 year: 6.63%, 10 year: 4.43%. The returns for the Pax Global Women's Leadership Index as of 6/30/2016 were, 1 year: 1.30% and 2 year: 1.42% annualized. ***Total annual Pax Ellevate Global Women's Index Fund operating expenses, gross of any fee waivers or reimbursements, for Individual Investor Class and Institutional Class shares are 0.90% and 0.65%, respectively, as of 4/1/2016 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.**

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.