PAX World Funds
Advised by Impax

Connection

Fall 2021 | A Newsletter for Sustainable Investors

INSIDE

50 Years of Sustainable Investing

By Joseph Keefe, President, Impax Asset Management

Impax Asset Management is celebrating the 50th birthday of the **Pax Sustainable Allocation Fund (PAXIX)**, which launched in August 1971, marking the inception of the Pax World mutual fund family, which we are proud to manage. The Fund was the first publicly available mutual fund in the United States to use social and environmental as well as financial criteria in the investment process, and it helped give birth to the now burgeoning sustainable investment industry.

The fund's founders, Luther Tyson and Jack Corbett, were United Methodist ministers who were opposed to the Vietnam War and wanted to avoid investing their churches' assets in companies involved in the war, so the Pax World Fund (later renamed) excluded companies that manufactured such products as Agent Orange, napalm and other weapons. Soon after launching the Fund, Tyson and Corbett realized that if they could screen out weapons they could also screen out other things that they deemed inappropriate for church investments, so they added tobacco companies, polluters and (as earnest Methodists) alcohol and gambling to the list of excluded companies.

That was the origins of what is now called "sustainable" or "ESG" (environmental, social, governance) investing in the United States; it was more about what you didn't invest in than what you did invest in.

Our investment philosophy has evolved since launching the Pax Sustainable Allocation Fund 50 years ago. While Pax World Funds still exclude companies involved in the manufacture or sale of weapons, as well as tobacco companies and fossil fuel companies, today our investment focus is squarely on the risks and opportunities arising from the transition to a more sustainable global economy. We believe that capital markets will be shaped profoundly by global sustainability challenges, particularly climate change, environmental pollution, natural resource constraints and demographic and human capital issues such as diversity, inclusion and equality. We expect these trends will drive growth for well-positioned companies and create risks for those unable or unwilling to adapt.

We integrate environmental, social and governance (ESG) criteria into our investment portfolios based on the now firmly established premise that such factors can be material to how companies and investment portfolios behave, particularly when it comes to risk.[1]

And we continue to evolve and innovate.

We launched the **Pax Ellevate Global Women's Leadership Fund (PXWIX)**, the first broadly diversified mutual fund that invests in the highest-rated companies in the world for advancing women. Our fastest-growing Fund, the **Pax Global Environmental Markets Fund (PGINX)**, invests in companies offering resource efficiency and environmental solutions, where we see attractive growth opportunities in the critical decades ahead.

CONTINUED on BACK PAGE

Editor: **Tracey Bentley**
Layout: **Dorset Norby Star**

General Fund Information:
☎ 800.767.1729

Shareholder Account Information:
☎ 800.372.7827

www.impaxam.com

Mixed Source
Product group from well-managed forests and recycled wood or fiber
www.fsc.org
© 1996 Forest Stewardship Council
FSC

This newsletter is printed by an FSC and SFI certified printer on FSC and SFI certified, and 30% post-consumer waste paper.

Printed using soy and vegetable based inks.

IMPX0626 1/22

Climate-aware Investing in Today's Credit Markets

By Peter Schwab, Senior Vice President, Portfolio Manager

The global bond market is playing a critically important role in financing the transition to a more sustainable economy. Within the corporate debt market, instruments such as social and sustainability-linked bonds are being used by companies to transform their business operations to be more sustainable and prepare for the shift to a low-carbon economy.

In the high-yield debt market, growth prospects are limited for the oil and gas (O&G) sector, fated as it is by fundamental secular and regulatory challenges. These challenges have been laid bare by the landmark activist shareholder victories against Exxon, Chevron and Shell in recent weeks.

Greater opportunities instead lie in the climate-aware investing movement, which is causing investors to look at "fossil fuel free" and to find growth in the solutions that are helping to create a lower carbon economy. Many sectors within high yield are primed to benefit from this transition. For example, innovations in broadband telecommunications, technology and healthcare are providing tailwinds for companies in these sectors. In addition, certain industrial companies and automotive suppliers will benefit from the necessary infrastructure improvements and components required to support the electrification of the global transportation fleet.

Fundamental risks of O&G investing are pushing investors to alternatives

Growing fundamental concerns are driving investors across the globe to seek alternatives outside of the traditional energy sector. The energy sector has consistently experienced high default rates and low returns compared to the overall high-yield asset class.

According to Bank of America Merrill Lynch research, in the last 15 years, the default rate in the energy sector has averaged 7% while the rest of the high-yield index has only seen an average of 3.9%. This is due to the typical high debt loads, which have been particularly acute for oil and gas firms given low return on capital, heavy capital requirements, depleting asset bases and growing regulatory pressures.

Investors are taking notice of these fundamental risks and are increasingly avoiding traditional energy in their portfolios. Climate-aware investing provides them with the prospect of higher returns with lower volatility.

> "Investors are taking notice of these fundamental risks and are increasingly avoiding traditional energy in their portfolios."

External risks pose an even greater concern for investors in O&G

The fundamental risks facing the oil and gas sector, described above, are causing a weakening demand curve, which is arguably the greatest concern for fixed income investors.

It has been estimated that about 50 to 70%[1] of the U.S. and 35%[2] of the world's oil production is consumed by the transportation sector. In Western and developed markets globally, regulatory and consumer sentiment is driving a major shift from internal combustion engine (ICE) vehicles to electric vehicles (EVs) as soon as 2030, severely reducing the demand for oil. Bolstering this shift is consumer and political desire for solutions to help combat climate change and modernize infrastructure. As such, the lower demand will put even greater pressure on returns on capital and it will become more and more difficult to service the debt.

On the other hand, natural gas currently powers much of the developed world's electric power grid. It is widely considered as a "transition fuel" as utilities move away from dirtier forms of energy such as coal to more renewable energy sources such as wind and solar. Given that natural gas is playing the role of a stopgap between a carbon-intensive economy to one that is carbon-free, it has a longer lifespan than oil, but it faces additional regulatory and environmental issues. For instance, environmental regulations are likely to be imposed on fracking, a large way that natural gas is extracted, due to its environmental impacts that include ground and surface water pollution and biodiversity loss from the destruction of natural habitats along with greenhouse gas emissions from methane that is released during the extraction process.

Opportunities for investors — invest in growth sectors that will be a part of the transition

Given the heavy fundamental, regulatory and environmental risks of investing in traditional energy, investors are looking for better alternatives for returns. But what is to replace a sector that currently makes up 14% of the ICE BofA Merrill Lynch U.S. High Yield BB-B (Constrained 2%) Index?

At Impax we use our "Sustainability Lens" to help signpost those sectors that are potentially attractive areas for investment. This allows us to steer away from companies with fragile business models (like within O&G) that may be undermined as the transition to a more sustainable economy accelerates.

With the move to electric vehicles, there is an anticipated expansion of the

CONTINUED on NEXT PAGE

Meet Christine Cappabianca

Christine Cappabianca joined the Impax team in June as a Portfolio Manager of the firm's systematic strategies, including the Pax Ellevate Global Women's Leadership Fund, the Pax Global Sustainable Infrastructure Fund, the Pax U.S. Sustainable Economy Fund and the Pax International Sustainable Economy Fund. We asked Christine what she finds attractive about a systematic approach to sustainable investing. Here's what she said.

"Systematic investing is a more structured approach to portfolio management that appeals to those seeking an efficient, repeatable process with well-defined investment targets, which, in our case, can include several sustainability targets. This approach is efficient because we can simultaneously look at many moving factors in the market and 'control the dials,' so to speak.

Depending on the strategy, we can target gender factors, areas of sustainable infrastructure, or what we see as high opportunity areas of the market poised to benefit from the transition to a more sustainable economy. If we want one dial turned up, we have the ability to do so, and at the same time we can understand the effect on other portfolio exposures."

Christine integrates sustainability into her everyday life through volunteering and adopting elder animals. She's also an avid runner; currently she's gearing up for the Chicago Marathon. X

Read our full Q&A with Christine Cappabianca here: **impaxam.com/cappabianca**

New Pax Insights

Find this and all recent thought leadership from Impax experts at **impaxam.com/insights**

The Growing Business Case for Diversity

Julie Gorte summarizes the latest findings amid the ever-growing body of research showing the positive effects of diversity in business.

Read article here: **impaxam.com/diversity-2021**

Advancing Equality

Our new Sustainability & Impact Profile shows how the companies in the Pax Ellevate Global Women's Leadership Fund are helping to advance equality. Check it out to see the magnitude of your investments in the Fund.

Read profile here: **impaxam.com/pxwex-profile**

CLIMATE-AWARE INVESTING IN TODAY'S CREDIT MARKETS, CONTINUED from PAGE 2

electric utility grid to fill the white space that oil and gas will leave behind. This will offer areas of growth along the supply chain to support the development, production and convenience of electric vehicles.

In the high-yield market, prime examples of companies that have strong participation in electrification include transmission, axle and friction component manufacturers. Along with the electrification movement, there are opportunities across infrastructure improvements in high yield. These include companies innovating in the broadband and telecommunication sectors as technology becomes more widespread in demand and reach across the globe.

Between the fundamental and external risks and the great growth opportunities outside of traditional energy, we believe it makes sense to shift client capital to companies disrupting markets and supporting the evolution away from a dwindling sector. High yield as an asset class presents an exceptional opportunity to invest in exciting growth areas that are helping to support the transition to a cleaner and more sustainable economy. X

[1]U.S. Energy Information Administration, "Oil and Petroleum Products Explained," May 10, 2021.

[2]Statistica.com, "Distribution of Oil Demand in the OECD in 2019, by Sector," last accessed June 22, 2021.

The ICE BofA Merrill Lynch U.S. High Yield BB-B (Constrained 2%) Index tracks the performance of BB and B rated high yield bonds. The Index contains all securities in the BofA Merrill Lynch US High Yield Index but caps issuer exposure at two percent. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed two percent. One cannot invest directly in an index.

Prevent Asset Transfer by Keeping Your Account Active

Escheatment/unclaimed property laws are in place so your state can act as a custodian to lost assets until the rightful owner or heir requests their return. Such laws require mutual funds to turn over uncashed checks and/or account shares if the owner cannot be located or hasn't contacted their mutual fund for a certain period of time, typically between three and five years. Once assets are transferred, the owner must contact the state to claim them.

Fortunately, you can prevent unwanted escheatment by keeping your account active. Simply log into your account at impaxam.com/account and check your balance every now and then. Or make a transaction either online or by calling Investor Services at 800.372.7827. These simple check-ins will keep your account active and prevent unwanted asset transfer.

If your account has been inactive and is in danger of escheatment, you will receive a letter from Pax World Funds with step-by-step instructions on how to reactivate it. If you receive a letter, reactivate your account as soon as possible to prevent asset transfer.

Do we have your current address? Now is a great time to log in and update your information!

Login here: impaxam.com/account

---

50 YEARS OF SUSTAINABLE INVESTING, CONTINUED from FRONT PAGE

Earlier this year we sought to enhance the sustainability profiles of several of our funds to increase their exposure to powerful sustainability megatrends that we believe will only accelerate in the years to come.

Today there are nearly 400 sustainable mutual funds in the United States.[2] New options come to market virtually every day, and this growth shows no sign of letting up. An RBC Wealth Management survey of 1,000 clients conducted earlier this year revealed that 61% want to increase the amount of environmental, social and governance-focused holdings in their portfolios.[3] During the first quarter of 2021, inflows to sustainable funds reached $185 billion globally.[2]

It is gratifying to be part of the firm that helped spark an entire industry. The wave that we played such a critical role in launching some five decades ago continues to send ripples. There is much work to be done. We continue to have a sense of urgency about addressing global sustainability challenges and we continue to be vigilant stewards on behalf of our clients and shareholders. But there are also grounds to pause, reflect and celebrate as we mark the 50th anniversary of the Pax Sustainable Allocation Fund.

[1]Julie Gorte, "The Investment Case for Sustainability: The Rise of Resilience," Impax Asset Management, July 29, 2020.

[2]Jon Hale, "U.S. Sustainable Funds Continued to Break Records in 2020," Morningstar, Feb. 25, 2021.

[3]Jacqueline Sergeant, "Female Investors Expect Advisors To Be Informed About ESG," Financial Advisor, April 8, 2021.

RISKS

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.

There is no guarantee that the objective will be met and diversification does not eliminate risk.

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.

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.

The investment techniques and decisions of the investment adviser and the Fund's portfolio manager(s), including the investment adviser's assessment of a company's ESG (Environmental, Social and Governance) profile when selecting investments for the Fund, may not produce the desired results and may adversely impact the Fund's performance, including relative to other Funds that do not consider ESG factors or come to different conclusions regarding such factors.

The Pax Sustainable Allocation Fund is a fund-of-funds. The funds' allocations may change due to market fluctuations and other factors.

On 6/4/2014, the Pax Global Women's Equality Fund merged into the Pax Ellevate Global Women's Leadership Fund (the Fund), pursuant to an Agreement and Plan of Reorganization dated March 4, 2014 (the "Reorganization"). Because the Fund had no investment operations prior to the closing of the Reorganization, Pax Global Women's Equality Fund (the "Predecessor Fund") is treated as the survivor of the Reorganization for accounting and performance reporting purposes. Accordingly, all performance and other information shown for the Fund for periods prior to 6/4/2014 is that of the Predecessor Fund.

PAX World Funds
Advised by Impax

30 Penhallow Street
Suite 400
Portsmouth, NH 03801
800.372.7827
paxfunds@impaxam.com
www.impaxam.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.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.