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## Why We Engage

By Julie Gorte, Senior Vice President for Sustainable Investing

*Shareholders want the companies in their portfolios to perform well and create value. That's why at Pax we engage with the companies in our funds to ensure they're attuned to the risks and opportunities of the transition to a more sustainable global economy and adopting high sustainability standards — the kind that will help them create long-term value for investors. Julie Gorte explains.*

Every investment has impact. To be more accurate, every investment has multiple impacts — every stock or bond we put in our portfolios affects people, communities and the planet in multiple ways. We analyze the sustainability of everything we add to our portfolios, and we've been doing that for decades, yet it's fair to say that we have yet to find a perfect company. When we engage with companies, it is meant to do two things: improve the company's ability to add portfolio value and have an impact that advances sustainability. Those two things are closely related.

One of the things that we know is related to financial value is diversity. Companies that understand that diverse groups do a better job of decision-making than homogeneous groups, and that understand that their competitive prospects are better if they can get the best from their entire workforce, are better positioned to add portfolio value than peers that don't. We've been urging companies to pay attention to diversity for more than a decade: We not only vote our proxies against all-male boards, but against boards with just one "token" woman on them, as well. We have filed many shareholder proposals urging companies to make

diversity a part of every director search. And we have filed many shareholder proposals and engaged in dialogues with many companies to urge them to conduct pay audits, disclose the results and take steps to correct any gender pay gaps they find.

Climate change is also the moving spirit behind much of our engagement. We are in the midst of the sixth great extinction on our planet, and unlike the first five, this one is our fault: Our greenhouse gas emissions have raised Earth's average temperature, and that has changed weather patterns, sea levels and natural habitats. NASA recently announced that the past five years have been the hottest since we started keeping temperature records in the early 1800s. Even with countries, companies, states and municipalities having made commitments to reduce emissions, we are still on a path to raise global temperatures by approximately 3 degrees Celsius in the 21st century to levels unprecedented in human memory. The likelihood that these changes will be catastrophic is strong. The risks that climate change poses for companies and investors is already substantial — many insurance and reinsurance companies have posted catastrophe-related losses in the hundreds of millions and even billions, and at the time of this newsletter's writing, at least one major utility had declared bankruptcy resulting from liabilities largely related to our changing climate.

Many investors and companies still regard climate change as posing long-term risks, which is another way of saying that these risks are not used to inform their decision-making today. We disagree: We see climate

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# Gender Leaders Outperform Gender Laggards

By Scott LaBreche, Director, Portfolio Analytics & Index Strategy Optimization

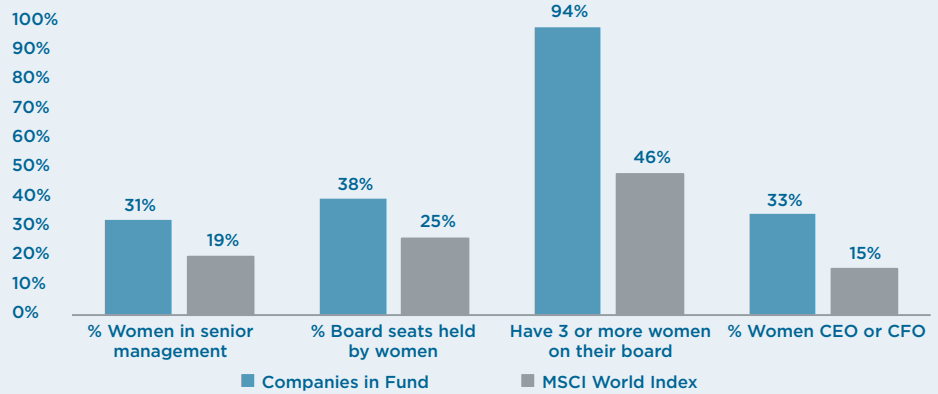
During the last few years there's been a spate of empirical research showing that companies with more gender diverse leadership teams outperform their less diverse peers.<sup>1</sup> It's been great to see, as these studies have reaffirmed our investment thesis that companies with more women decision-makers perform better in the marketplace. But now we have even better evidence to support that thesis — the results of our own Fund.

We built our **Pax Ellevate Global Women's Leadership Fund** by analyzing the approximately 1,600 companies in the MSCI World Index (the World Index),<sup>2</sup> rating them on the degree of gender diversity in their senior leadership teams, and investing in those with the most. As a result, the Fund holds about 400 of the highest-rated companies in the world for advancing women's leadership.

It has been a winning strategy. Since its inception in June 2014, the companies in this Fund have outperformed the MSCI World Index.

But that's not all: During the same period, the companies in the Pax Ellevate Global Women's Leadership Fund have significantly outperformed the bottom 75 percent of companies

## GENDER LEADERSHIP ADVANTAGE COMPANIES IN FUND VS. GLOBAL AVERAGES



Source: MSCI World Index, Impax Gender Analytics, December 31, 2018.

in the World Index — those with less gender diversity. Over 54 months since the Fund's inception, 90 percent of the Fund's relative outperformance can be attributed to owning those 400 companies in the World Index rated highest by the Impax Gender Analytics team, i.e., the gender leaders, while 10 percent of the Fund's relative outperformance can be attributed to *not* owning those companies in the bottom three-quarters of the World Index — the gender laggards.

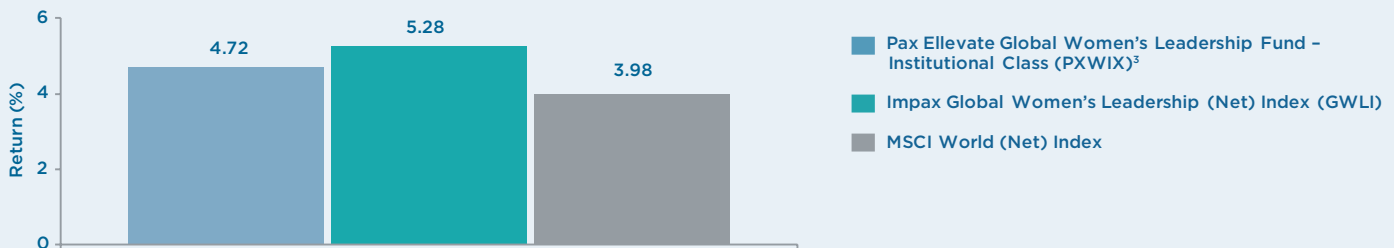
What does this tell us? It's smart to invest in companies that bring more

women onto their boards and executive management teams. The companies in our Fund understand that gender diversity helps them solve critical business challenges, and we believe they're outpacing their counterparts at least in part because of their gender advantage.

What else does it tell us? Choosing not to invest in companies that lag behind their peers on gender diversity and advancement also has helped this Fund outperform global developed markets. In other words, where we *didn't* invest matters as much as where we did.

CONTINUED on NEXT PAGE

## PERFORMANCE SINCE REORGANIZATION: 06/04/14 - 12/31/18



RETURNS (%) AS OF 12/31/18	AVERAGE ANNUAL RETURNS (%)				
	YTD	1-YEAR	3-YEAR	5-YEAR	SINCE RE-ORG
Pax Ellevate Global Women's Leadership Fund Institutional Class (PXWIX) <sup>3</sup>	-7.51	-7.51	7.15	5.31	4.72
Impax Global Women's Leadership (Net) Index (GWLI)	-6.20	-6.20	6.99	N/A	5.28
MSCI World (Net) Index	-8.71	-8.71	6.30	4.56	3.98

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](http://www.paxworld.com).

# New Pax Insights

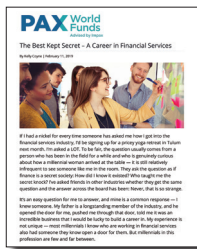
New perspectives from Pax World experts are available at [paxworld.com/insights](http://paxworld.com/insights).



## TALKING TRADE

CEO Joe Keefe talked about sustainable investing and shareholder activism on Nasdaq's "Trade Talks" program in January.

Watch the video at [paxworld.com/TradeTalks](http://paxworld.com/TradeTalks)



## WHERE'S GEN Y?

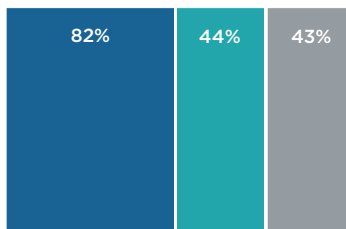
The lack of millennials in the financial services industry is a big problem. In this article, Vice President of Global Women's Strategies Kelly Coyne describes the issue and explains how to fix it.

Read the article at [paxworld.com/Secret](http://paxworld.com/Secret)

## Voting Our Proxies

It is our privilege and responsibility as shareholders to vote on company resolutions, and we take that seriously. In 2018, we voted 100 percent of our proxies, on issues ranging from board of director elections, executive compensation and capital structure to environmental and social issues. Where we voted "no," we wrote to the company to explain our opposition and suggest steps it could take to improve.

### PROXY VOTES BY TOPIC



- Votes For Shareholder Proposals
- Votes Against Compensation
- Votes Against Management

## CONVERSATION PIECES



“ The PG&E example will encourage other companies to think about climate change. ”

CNBC, Jan. 31, 2019

**Julie Gorte, Senior Vice President for Sustainable Investing**

“ Until the loan market gets back to where it was, I think we'll see the bond market picking up some slack. ”

Reuters, Jan. 28, 2019

**Peter Schwab, Portfolio Manager, Pax High Yield Fund**

“ I think CEOs really do believe in the power of diversity, but middle management is where diversity goes to die. ”

The Daily Show with Trevor Noah, Jan. 29, 2019

**Sallie Krawcheck, Chair, Pax Ellevest Management LLC**

### GENDER LEADERS OUTPERFORM GENDER LAGGARDS, CONTINUED from PAGE TWO

The status of women in an organization tends to have a positive correlation to its performance in the marketplace, and in the marketplace there are gender laggards and gender leaders. We'll follow the leaders. **X**

<sup>1</sup><https://paxworld.com/category/research/gender/>

<sup>2</sup>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 tax. One cannot invest directly in an index.

<sup>3</sup>The minimum investment needed for investment in the Pax Ellevest Global Women's Leadership Fund Institutional class is \$250,000.

The top 10 holdings of the Pax Ellevest Global Women's Leadership Fund as of 12/31/2018 are as follows: Microsoft Corp. 4.0%; Canadian Utilities, Ltd., Class A 2.1%; American Water Works Co., Inc. 2.1%; Texas Instruments, Inc. 2.0%; Wolters Kluwer NV 2.0%; Intuit, Inc. 2.0%; Swedbank AB, Class A 2.0%; Estee Lauder Cos, Inc. Class A 1.9%; Cisco Systems, Inc. 1.9%; Johnson & Johnson 1.9%. Holdings are subject to change and are not a recommendation to buy or sell any security.

The annualized returns for the Pax Ellevest Global Women's Leadership Fund - Institutional class as of 12/31/2018 were, 1 year: -7.51%, 3 year: 7.15%, 5 year: 5.31%, 10 year: 8.86%, since reorganization 4.72%. "Since Reorganization" date is 6/4/2014; 5-year and 10-year performance data pre-date fund reorganization.

On 6/4/2014, the Pax World Global Women's Equality Fund merged into the Pax Ellevest 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 World 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.

The Impax Global Women's Leadership Index is a customized index of the highest-rated companies in the world for advancing women's leadership, as rated by Impax Gender Analytics, and that meet key environmental, social and governance (ESG) standards. Companies are rated by Impax Gender Analytics based on multiple criteria of gender leadership, including: representation by women on the board of directors and in executive management, woman CFOs, woman CEOs and whether they are signatories to the Women's Empowerment Principles. Inception date of The Index is 02/28/14. One cannot invest directly in an index.

# Shareholder Corner: New Options Bring Flexibility to Report Delivery

The Securities and Exchange Commission (SEC) has passed a new rule that allows mutual fund companies to deliver annual and semi-annual reports to shareholders using the new “notice and access” method, beginning as early as 2021. This means that shareholders will receive a mailed notice (postcard) that their reports are available on the Pax website rather than receiving the full reports through the mail. Shareholders also continue to have the option of receiving their reports via email.

## What this means for you

If you already receive your reports via email, you are not affected by the new rule and you will continue to receive your annual and semi-annual reports electronically. If you have not signed up to receive your reports via email, then

you now have the option of a) signing up for email delivery, b) receiving a postcard, through the mail, each time the reports become available on the Pax website, or c) electing to receive the full report by mail.

We believe e-delivery is the best option for both our shareholders and our planet’s natural resources. It’s the fastest method — reports are available sooner because there is no added time for printing and mailing. And e-delivery is less expensive and resource-intensive due to reduced postage costs and a greatly reduced use of paper and ink.

But here’s the thing: You must choose e-delivery before we can begin sending your reports this way. If you currently receive your report via postal mail, beginning in 2021 you will receive the

postcard, instead, unless you elect to have your reports delivered electronically. Here’s how you can do that.

## How to choose e-delivery in three easy steps

1. Log into your account at [paxworld.com/account](https://paxworld.com/account).
2. Go to the “account options” menu.
3. Select “e-delivery option.”

No matter which delivery method you choose, you can always request a printed copy of your reports, free of charge, by calling 800.767.1729 or emailing [info@paxworld.com](mailto:info@paxworld.com).

*Please note! Pax World offers e-delivery for more than just annual and semi-annual reports! You can elect to receive almost all required mailings by e-mail, instead. X*

## WHY WE ENGAGE, CONTINUED from FRONT PAGE

change as posing risks now, and while those risks will continue (and increase) over the longer term, we believe that these risks should be integrated into strategic plans and investment decisions today. Our engagements are aimed

at getting companies to recognize and report these risks, set targets for reducing emissions and invest in low- or zero-carbon assets.

These engagements are impactful not only for investors, but for the planet —

our ability to maintain civil society and preserve the ecosystems that provide us the necessities of life. And those, in turn, are good ways to add value to a portfolio. X



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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](http://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 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.

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