PAX World Funds
Advised by Impax

# Connection

Spring 2020 | A Newsletter for Sustainable Investors

## INSIDE



# Sustainable Investing Update

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

Reuters reported recently that the number of weather disasters that cost a billion dollars or more has doubled during the past decade, with 14 such events in 2019 alone, carrying a total price tag of more than $45 billion. Australia is suffering one of the worst bushfire seasons ever, something that was forecast with spine-tingling accuracy in 2007 by the United Nations' Intergovernmental Panel on Climate Change. It's time we stopped thinking of extreme weather events as acts of God and started seeing them as something we, ourselves, have brought about, and something we can and should do something about.

**"Everyone has something to contribute to avert a climate disaster."**

Everyone has something to contribute to avert a climate disaster. As investors, we see this as part of what we are supposed to do — invest in things that are more likely to create value and assure that the risks in our portfolios are priced appropriately. For many years, we have avoided investing in some of the most carbon-intensive human activities, such as coal and tar sands mining, as well as utilities that depend more heavily on coal. Maybe if everyone had done that we wouldn't be on a path to 3 - 4 degree warming over this century. But that didn't happen, and now we must up our game.

Pax World Funds now offers nine fossil fuel–free funds.[1] In addition, we track the carbon intensity of our funds, and our ESG Beta® funds are explicitly managed to strive to be at least 35 percent less carbon intensive than their benchmarks. Also, for those two funds and one other, we are replacing the fossil fuel names in the portfolios with energy efficiency companies through an approach we call SmartCarbon™. We have engaged with all the companies in our global funds from the two most carbon-intensive sectors — utilities and materials — to urge them to establish science-based targets for emissions reduction and undertake climate risk reporting and scenario analysis recommended by the Task Force on Climate-Related Financial Disclosure. We've already had encouraging responses from some of those companies, and we intend to keep the pressure on. And, unlike many large investors, we generally vote for shareholder proposals asking companies to report on climate risks, establish emissions reduction targets or discuss how they deal with the risks posed by a transition to a low–carbon economy.

None of this will be enough to change the trajectory of the planet with respect to global warming if we're the only ones doing it, but if everyone did what we're doing, our prospects would certainly be better, and it might even help us prevent a climate catastrophe.

Right now, unfortunately, doing something about it is not getting easier, but harder, in part because of an effort to subdue shareholder voices about major value-related issues such as climate change and gender equality. Much of this effort has been financed and advanced by groups

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# Will Textiles Become the New Plastic?

Public concern has been rising across the breadth of environmental issues in addition to climate change, such as local air pollution in Asia, water scarcity in South Africa, India and Australia, and the overuse of plastics globally. In fact, plastics have triggered a raft of legislative initiatives around the world. Companies are responding with, for example, smart non-plastic packaging that can extend shelf life and reduce food waste. These trends have provided tailwinds for companies offering solutions. So, what might be the next environmental concern to rise up the agenda? We see the textile industry as a likely next target.

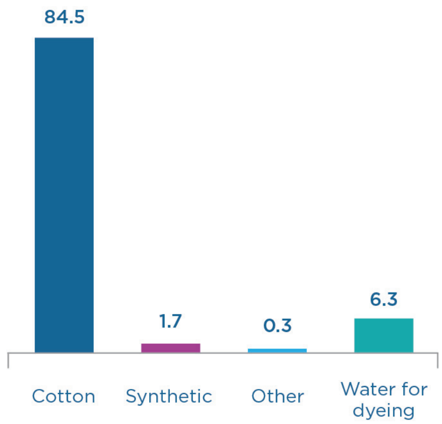
The falling cost of textiles and the explosion of fast fashion in recent years have created a ballooning — but largely overlooked — environmental impact. Producing textiles, especially cotton-heavy textiles, is water and energy intensive, and the trend toward mixing different types of fibers within clothing can make recycling difficult if not impossible. Currently, just 15 percent of textiles are recycled, according the U.S. Environmental Protection Agency, while the apparel and footwear sector is responsible for about eight percent of greenhouse gas emissions.[1]

The European Union (EU) plans to focus on the textiles sector in 2020, and we expect the issue to rise in public consciousness. This will create opportunities for producers of sustainable textiles and those offering recycling solutions.

*For more about what we see when we look ahead into 2020, see the article "Impax's 2020 Vision: An Outlook for Investors in the Sustainable Economy" online at https://impaxam.com/2020.* **X**

## Water Usage

Water usage by fiber type and production phase (million megaliters)




**Source: Ellen MacArthur Foundation, A New Textiles Economy: Redesigning Fashion's Future, 2017.**

**[1]Quantis, "Measuring Fashion: Insights from the Environmental Impact of the Global Apparel and Footwear Industries," 2018.**

# New ESG Insights

**Recent perspectives from our experts are available at impaxam.com/insights**

### The Sustainable Healthcare Opportunity

In this article, Research Analyst Chris Eccles describes how demographic changes, government regulation and other factors are driving transformation in the global healthcare sector and creating opportunities for sustainable investors.

Read the article at https://impaxam.com/healthcare

### Five Steps for AGILE Companies

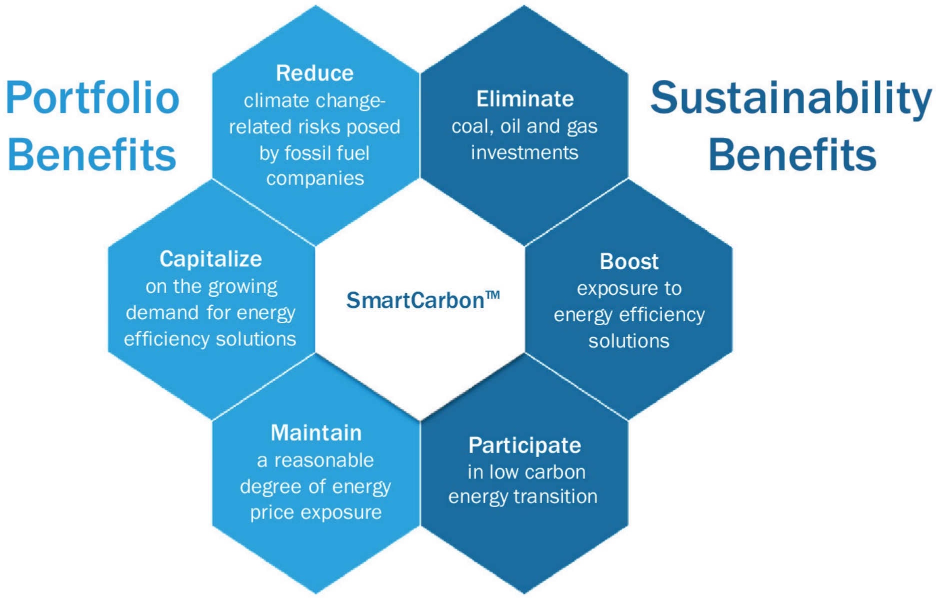
In the workplace, gender inequality is a culture killer, and since every company strives for a healthy workplace culture, we recently released "Five Things AGILE Companies Can Do To Advance Gender Equality," an action plan to help companies make a more equitable workplace for all genders. It includes five AGILE steps (**a**udit, set **g**oals, create **i**ncentives, offer **l**eave, **e**liminate non-disclosure agreements) that boards and leadership teams can follow.

Get the plan at https://impaxam.com/AGILE

# Pax World News

### Smarter investing

Because the risks associated with investing in fossil fuel companies will continue to increase, we've integrated SmartCarbon™ into the investment approach of three Pax World Funds — the **Pax ESG Beta Quality Fund**, the **Pax ESG Beta Dividend Fund** and the **Pax MSCI EAFE ESG Leaders Index Fund**. SmartCarbon is a proprietary, risk-based investment approach for managing exposure to companies with fossil fuel reserves on their balance sheets. The three funds have become fossil fuel free, replacing energy company holdings with a diversified basket of energy efficiency stocks. X




### A race we can win

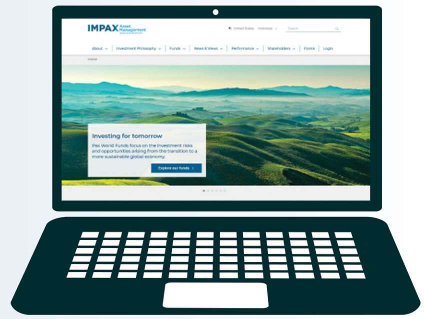

We're delighted to be one of 50 international businesses featured in a new film series from Bloomberg and the United Nations about leaders who are working toward climate change solutions. Late last year film crews arrived in our Portsmouth and London offices to talk about how sustainable investors are helping solve the climate emergency. The resulting video was released in January. Watch it here: https://impaxam.com/50-climate-leaders. X

### Performance at your fingertips

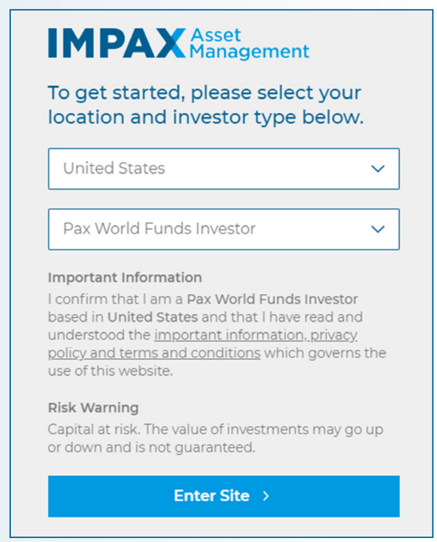
Looking for performance info? You can access the most updated data 24/7 on our website at https://impaxam.com/pax-world-funds/performance. X

# Sporting a New Look

PaxWorld.com is now **Impaxam.com**, but don't worry about updating your bookmark — the usual address will continue to take you there.



The first time you visit the new site you'll be asked to enter your country and investor type. Choose "United States" and "Pax World Funds Investor." Check it out! Impaxam.com.



IMPAX Asset Management

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**Risk Warning**

Capital at risk. The value of investments may go up or down and is not guaranteed.

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# Sending us a note?

We have a new email address. Write to us at: **paxfunds@impaxam.com**. This new address replaces the info@paxworld.com address you may have used in the past. Drop us a line any time!

# Shareholder Corner: Highlights from the SECURE Act

You may have heard that Congress passed the Setting Every Community Up for Retirement Enhancement Act, or SECURE Act, in December 2019. Many of its provisions became effective January 1, 2020.

There are many important changes in this legislation, a few of which are highlighted below. For more details, visit the IRS website "publication" and "frequently asked questions" sections. For guidance about how this regulation may affect you, please consult a financial or tax professional.

Here is a sampling of SECURE Act changes that impact contributions to, redemptions from, or inheritance of an IRA.

- The age limit to contribute to a traditional IRA has been eliminated. You can already contribute to a Roth IRA at any age, provided you have earned income, and now you can do so with a traditional IRA.
- The required beginning age for mandatory distributions from your traditional, SEP or SIMPLE IRA or 403(b) account has increased from 70.5 to 72 — if you were born on or after July 1, 1949. If you reached age 70.5 before January 1, 2020, you must still take your required minimum distributions on schedule.
- There are several categories that allow you to take a penalty-free early withdrawal, up to certain limits, including purchasing your first home and certain higher education expenses. The SECURE Act now adds the birth or adoption of a child to this list. Income taxes still apply to these withdrawals.
- Non-spouse beneficiaries inheriting an IRA will generally have a maximum of 10 years to redeem accounts in full. There are certain exceptions for minor children, disabled beneficiaries and beneficiaries close in age, and spouses still have additional options.

We hope you find this information helpful in starting a conversation with your investment or tax adviser about how the SECURE Act may benefit you. X

**SUSTAINABLE INVESTING UPDATE,** **CONTINUED from FRONT PAGE**

like the Business Roundtable, the U.S. Chamber of Commerce and the National Association of Manufacturers. In response, the Securities and Exchange Commission has proposed a rulemaking that would make it significantly more difficult for investors to file shareholder proposals. We are working with other shareholders and investment institutions to express, through the formal comment process, how bad an idea we think this is.

Even if we fail to deter the SEC's ill-advised rulemaking, we will continue to direct our efforts toward making better rules, because we know they are needed. Perhaps when we have an administration in place that understands that climate change is real and that investors have tens of trillions of dollars' worth of value at risk if we keep pretending it's a hoax, we can assure that management and boards are more attentive to shareholder interests in making the economy, and financial markets, more compatible with the needs of sustainability. X

**[1]In our fossil fuel-free funds, we seek to avoid investing in securities of companies significantly involved in the extraction and/or refining of fossil fuels (coal, oil and gas), which includes: exploration and production; refining and marketing; storage and transportation; and equipment and services. Collectively, these companies comprise the Energy sector according to the Global Industry Classification Standard (GICS®), a widely recognized industry standard.**

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