Dear Fellow Shareholders,

The year 2015 may be remembered as the year sustainable investing went mainstream. Although interest in sustainable investing has been gathering momentum for some time, the past year saw a veritable explosion of media coverage, new fund launches, new entrants into the field and a growing consensus that integrating environmental, social and governance (ESG) concerns into investment strategies is an idea whose time has come.

Pax World, of course, has been at the forefront of this movement for some time. For many years, we and a handful of our colleagues were lonely voices in the wilderness, calling on investors and financial markets to embrace sustainability, to think long term, to insist that corporations not only better serve their shareholders, but other stakeholders as well—their employees, the communities where they do business, the natural environment. Now these sentiments are no longer in the minority. In fact, they are no longer even sentiments; they are a full-fledged investment discipline. Moreover, it is an investment discipline in high demand.¹ At Pax, we have long provided investors an opportunity to invest in these companies. Today, many other investment managers are following our lead and starting to do the same.

Not only do individuals and institutions want their investments to yield a fair return, but a positive social impact as well.

Demographics. It is also clear that certain investors, including perhaps the two fastest growing demographics within the investment landscape—women and Millennials—want their investments aligned with their values.² They want to invest in companies with diverse leadership teams.³ They want to invest in companies that are making a positive difference in the world; that are part of the solution rather than part of the problem.⁴

Impact. There are certain fundamental global challenges—climate change and gender inequality clearly fall into this category—that not only demand change but demand that capital markets help drive that change. A new vision of the business corporation is emerging, replacing the old notion that the only duty of a corporation is to make a profit. Instead, a more expansive vision and set of expectations is taking hold, wherein consumers, investors and business leaders themselves increasingly agree that businesses need not only be more responsive to social and environmental...
2015 was a banner year for the climate change issue, as 195 nations met in Paris at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) in December to forge a new agreement to reduce greenhouse gas emissions. Some analysts regard this as feeble, because the commitments made in Paris are not binding. Binding would be better, but this is nonetheless a major achievement, and these commitments are important. Without the work of companies and investors telling the negotiators that the world needs a carbon price, and that emissions reduction is not only possible but essential, would that agreement have been reached? Probably not.

Pax World has been part of numerous efforts to bring investor support to reducing carbon emissions, including:

- **The Carbon Disclosure Project**, in which over 820 investors annually urge companies to report on climate risks and opportunities and take steps to reduce emissions.
- **The Investor Network on Climate Risk**, which launched the Clean Trillion initiative to invest a trillion dollars in clean energy annually.
- **RE100**, a coalition of investors with over £350 billion in assets that pressures corporations to commit to 100% renewable electricity.
- **Paris Green Bonds Statement**, launched by the Climate Bonds Initiative (CBI), is aimed at supporting long-term, sustainable green bond markets.
- **The Green Infrastructure Investment Coalition**, a product of the CBI and the Principles for Responsible Investment (PRI), which brings together investors, governments and development banks to improve the flow of capital to green infrastructure projects worldwide.
- **The G20 Energy Efficiency Investor Statement**, launched by the PRI, the United Nations Environment Programme Finance Initiative, and Ceres, aims to integrate energy efficiency into investment activities including portfolio construction, engagement, proxy voting, and asset allocation.

None of these, by themselves, were sufficient to turn the world’s emissions around overnight, but it is noteworthy that in 2014, for the first time, the world’s carbon emissions went flat while the economy grew. It’s progress. To try to keep up that progress, we filed three shareholder resolutions urging companies to address business operations with an eye toward reducing greenhouse gas emissions and using more renewable energy (Nucor, American Electric Power, and Duke Energy).¹

Being an investor gives us a voice, as an owner of a company or other security issuer, or as a creditor of such enterprises. We use that voice to let corporations know what we think will make them both better investments and more sustainable. We focus our advocacy on the things we see as the most pressing problems, and that means climate change remains a priority. It’s an issue that if left unaddressed, would continue to impair economic growth and financial performance, and it is an issue that investors have tools to address constructively.

¹As of 12/31/15, Nucor Corporation was 1.2% of holdings of the Pax Growth Fund. American Electric Power Company, Inc. was 0.2% of holdings of the Pax Ellevate Global Women’s Index Fund. Duke Energy Corporation was 0.3% of holdings of the Pax Ellevate Global Women’s Index Fund. Holdings are subject to change.
You’ve probably heard a lot about the gender pay gap. The topic has dominated headlines from the *New York Times*, to *Fortune*, to *Freakonomics*, to the *Atlantic*, to the *Wall Street Journal*—and was a point of discussion at the recent World Economic Forum in Davos. Even Hollywood stars are shining the spotlight on the fact that male and female actors often are not paid equally for appearing in the same film. And in January, President Obama proposed new rules aimed at closing the gender pay gap.

*And yet*, despite all this attention being paid to the issue, the facts remain discouraging:

- The average woman in the U.S. makes just 79 cents for every dollar earned by the average man.¹
- There’s been only a 3 percent closure of the gender gap over the last 10 years.²
- At the current rate of progress, women may not reach pay parity until 2133³

We not only believe that pay equity is critical to advancing women in business, but that gender disparities may pose material risks to investors, and companies should therefore publicly disclose this information.

That is why Pax World is involved in several shareholder advocacy initiatives aimed at closing the gender pay gap, including filing shareholder proposals at Apple, eBay, and Amazon⁴, requesting the disclosure of pay equity assessment results. And in January, Pax Ellevate, a joint venture of Pax World and Ellevate Asset Management, submitted a letter to the Securities and Exchange Commission (SEC) urging the agency to either require companies to disclose pay equity data, or to issue guidance for the voluntary disclosure of such information.

In our view, businesses that take proactive steps to close whatever inequities may exist...
are better positioned to succeed, while those that discriminate can be vulnerable to litigation, regulatory, and reputational risk. On an encouraging note, there are companies taking action to fix the problem, from conducting internal pay assessments, to examining pay ratios by gender, to making such data public.

We believe the sooner men and women are paid equally for equal work, the sooner businesses and society as a whole can enjoy the economic benefits of engaging the talents of our entire workforce, not just one half.

We all want to make a difference. We all want to invest in organizations that are making a positive contribution to a better society and a healthier planet.

That's what sustainable investing is all about, and 2015 was a year where this idea in some ways finally broke through. Our work at Pax has made a significant contribution in this regard, and we will continue to provide leadership and work with others to provide direction as this movement continues to grow.

As we move into 2016, I hope we can continue to provide investment solutions that meet your needs as well as your aspirations. I also hope that markets will not only be better, but that developments around the world, including elections here at home, take us in the direction of peace rather than conflict, liberty rather than oppression and justice rather than inhumanity.

Pax World Investments

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4As of 12/31/15, Apple, Inc. was 2.4% of holdings of the Pax Balanced Fund and 5.1% of the Pax Growth Fund. eBay, Inc. was 0.8% of holdings of the Pax Growth Fund. Amazon.com, Inc. was 1.5% of holdings of the Pax Balanced Fund and 2.3% of the Pax Growth Fund. Holdings are subject to change. The eBay and Amazon shareholder proposals were cofiled with Arjuna Capital.


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