Why Diversity and Equality Should Go Hand in Hand

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

Equality is one of those concepts that sounds simple (and should be simple), but really is quite complex. The same goes for diversity. The real trick is in achieving both.

It’s much easier to achieve equality without diversity—as our own Declaration of Independence holds it to be self-evident that “all men are created equal.” Equality among men is one thing, equality for both genders is harder. It’s also easier when the term “men” doesn’t apply to males of all races and ethnicities. Similarly, embracing diversity is easier if you don’t believe that you have to give everybody equal opportunities and protections.

In today’s world we simply can’t afford to have partial equality or unequal diversity: we need both.

There are business reasons, as well as moral ones, to assure that women and men have equal opportunities to contribute in the workplace. And at Pax World that’s something we think has value for investors as well.

Gender equality—assuring that men and women have equal access to work and advancement, capital, and pay for comparable work—is a key ingredient in channeling human talent in the workforce.

The World Economic Forum (WEF) highlights this by stating “empowering women means a more efficient use of a nation’s human capital endowment and that reducing gender inequality enhances productivity and economic growth.”

UN Women supports this view, noting that “when more women work, economies grow.” The U.S. Agency for International Development (USAID) also picks up this theme, noting that “eliminating workplace discrimination against women can increase productivity,” and “facilitating women’s entrepreneurship benefits economic development.” The International Monetary Fund maintains that “closing gender gaps benefits countries as a whole, not just women and girls.”

On the corporate side, numerous studies—from Credit Suisse, the Peterson Institute, and Gallup, among others—note that companies with more women in leadership positions tend to do better financially, as do business units that are more gender-diverse.

Moreover, research shows that diverse groups tend to be smarter and make better decisions than homogeneous ones. Scientific American notes that “being around people who are different from us makes us more creative, more diligent and harder-working,” because interacting with others who are different makes us prepare better and work harder to achieve consensus among people with different viewpoints.

The facts solidly support the economic benefits of a world in which we embrace diversity in ways that give people in all their endless variety true equality of opportunity. I have one daughter, and one transgender son. I want them to have a world in which they don’t have to be better than their peers in order to have the same opportunities.

Three Ways Sustainable Investors Can Harness the Power of Smart Beta
By Steve Falci, CFA®, Chief Investment Officer, Pax World

ESG portfolio strategies are becoming increasingly more sophisticated. The worlds of sustainable and smart beta investing are converging, providing investors with new ways to capture financial factors and environmental, social and governance (ESG) factors in their portfolios.

For a growing segment of sustainable investing portfolios, particularly those focused on large cap equities, the process is all about capturing the right ESG factor exposures.

Thanks to a growing body of research that examines how sustainability impacts financial performance, ESG analysts, including the Pax Sustainability Research Team, are shaping ESG ratings to hone in on material factors.

Why are ESG integration and smart beta converging?

We see four main catalysts:

1. Active large cap managers have struggled recently

   Large cap active managers are operating in the most efficient area of the market, where it is difficult to produce consistent, differentiated ideas based solely on traditional financial analysis. ESG integration can potentially provide an information advantage.

2. The rise of smart beta

   As large cap active managers in aggregate have disappointed, smart beta has taken hold as an increasingly popular and attractive hybrid between active and passive management. Smart beta strategies combine some of the advantages of passive management (i.e. lower fees) with the potential to exploit long-established anomalies in financial factors such as quality, value and low volatility.

3. Research shows ESG as a driver of positive risk/reward results

   ESG integration is now recognized as a strategy for mitigating risk and adding value that can be consistently captured and applied to a portfolio of securities.

4. ESG data improvements

   The increasing availability of more comprehensive ESG data, research and ratings allows investors to target specific ESG factor exposures with more accuracy.

Three ways to harness ESG in portfolios

Now let's consider how investors like Pax World are sourcing ESG factor returns.

1. Core: A market-cap weighted portfolio, tilted toward ESG

   Specialty indexed approaches utilizing ESG ratings can be used to build a market-like portfolio of sustainable companies.

2. Thematic: A portfolio targeting a more specific ESG factor

   A second approach is applying smart beta investing to a particular ESG issue or theme, such as advancing women in leadership or combating climate change through low carbon portfolios.

3. Multifactor: A portfolio integrating ESG and financial factors

   A third approach integrates both financial and ESG factors into portfolio construction. Pax World recently moved in this direction with the launches of the Pax ESG Beta Quality Fund (PXWGX) and the Pax ESG Beta Dividend Fund (PAXDX)—both are multifactor strategies that emphasize stocks with stronger ESG profiles. The Pax ESG Beta Quality Fund focuses on stocks with higher profitability, higher earnings quality, lower risk, and lower valuations. The Pax ESG Beta Dividend Fund focuses dividend-paying stocks with higher dividend yield and higher quality fundamentals that may support future dividend payments. As a key input into the process for both Funds, the Pax Sustainability Score aims to capture material ESG information regarding a company's risk and performance potential.

Here to Stay

These factor-based investment concepts are not new. Investing in forward thinking companies with more sustainable business models has long been part of active management, including here at Pax World. What is new, is that there are quantitative

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Pax World Launches Three New Funds

We are pleased to introduce three new funds to the Pax World mutual fund family. On December 16, 2016, Pax World launched:

- **Pax ESG Beta® Dividend Fund** – A smart beta strategy focused on ESG, dividend yield and dividend sustainability factors.
- **Pax Large Cap Fund** – A high conviction, core-growth strategy featuring ESG integration.
- **Pax Core Bond Fund** – An investment-grade fixed income portfolio with an allocation to sustainable, high-impact bonds.

The new funds extend Pax World’s sustainable investing expertise in two core asset classes: domestic large cap equity and fixed income. With these additions, Pax World now offers a comprehensive fund lineup spanning multiple asset classes and investment strategies.

Pax Balanced Fund Update

The Pax Balanced Fund converted to a fund of funds structure in December. It continues to have the same investment objective, portfolio management team, strategic asset allocation and expenses; however, now the Fund’s asset allocation components are fully invested in Pax World Funds rather than a combination of individual securities and mutual funds.

**UPDATED PAX WORLD FUND LINEUP**

**Active U.S. Equity**
- Pax Large Cap Fund - NEW
- Pax Mid Cap Fund
- Pax Small Cap Fund

**Smart Beta U.S. Equity**
- Pax ESG Beta® Quality Fund
- Pax ESG Beta® Dividend Fund - NEW

**Passive International Equity**
- Pax MSCI International ESG Index Fund

**Global Thematic Equity**
- Pax Ellevate Global Women’s Index Fund
- Pax Global Environmental Markets Fund

**Asset Allocation**
- Pax Balanced Fund

**Fixed Income**
- Pax Core Bond Fund - NEW
- Pax High Yield Bond Fund

Welcome Diederik Basch

Pax World is pleased to welcome Diederik Basch as a senior analyst on our small- and mid-cap investment team. Mr. Basch, formerly of RobecoSAM AG in Zurich, Switzerland, brings a strong combination of ESG and fundamental research experience on small- to mid-companies. His addition helps expand the research capacity of the team supporting the Pax Small Cap Fund and our recently launched Pax Mid Cap Fund.

Own It

Pax Ellevate Chair Sallie Krawcheck’s new book Own It: The Power of Women at Work hits shelves—and Amazon.com—this month. Ms. Krawcheck shows how the world of work is changing in ways that play to women’s natural abilities and strengths. In the book, she offers women a new set of rules to take their careers to the next level.

1Smart beta, also known as is factor investing, is a strategy wherein a portfolio of securities is over weighted, or tilted, toward certain factors—rather than market capitalization—in an effort to mitigate risk and/or deliver above market returns.
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Ways to capture them consistently and persistently in a market-oriented portfolio. We believe ESG factor-based investing is here to stay. Whether it is within the context of a broad market, narrow theme or in concert with financial factors, it’s easier than ever for investors to harness the power of sustainable investing.

CFA® is a trademark owned by the CFA Institute.

Visit Pax World’s Sustainable Investing Research page for a list of studies on the financial impact of ESG factors: http://paxworld.com/about/sustainable-investing


The MSCI EAFE ESG Index is designed to measure the performance of equity securities of issuers of developed countries around the world excluding the U.S. and Canada that have high Environmental, Social and Governance (ESG) ratings relative to their sector and industry peers, as rated by MSCI ESG Research annually. One cannot invest directly in an index.

The Pax Sustainability Score is a proprietary ranking of companies’ ESG performance.

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.

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. 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. Yield and share price will vary with changes in interest rates and market conditions. Investors should note that if interest rates rise significantly from current levels, bond fund total returns will decline and may even turn negative in the short term. There is also a chance that some of the fund’s holdings may have their credit rating downgraded or may default. 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. Pax Sustainable Managers are multi-manager funds. The Funds’ allocations may change due to market fluctuations and other factors. The Pax Mid Cap Fund, Large Cap Fund, Core Bond Fund and the ESG Beta® Dividend Fund are new and have a limited operating history. There is no affiliation between Pax World, ALPS Distributors Inc. and the companies listed within the articles in this newsletter. Copyright © 2016 Pax World Management LLC. All rights reserved Distributor: ALPS Distributors Inc.; Member FINRA.