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Winter 2021 | A Newsletter for Sustainable Investors

INSIDE

The White House Versus the Senate — Where Next for U.S. Climate Policy?

By Joseph Keefe, President of Impax Asset Management

The Democrats' failure to wrest control of the U.S. Senate from the Republican majority — pending the outcome of two special elections in Georgia — will pose significant challenges for President-elect Joe Biden to pursue his climate and energy policies with legislation. However, the White House wields significant executive power and can accomplish at least some of the Biden agenda without full cooperation from the Senate.

The Biden election platform included a climate plan to invest $2 trillion over four years in clean energy, low-carbon transport, building energy efficiency and infrastructure. The plan targets zero-emissions power generation by 2035 and a net-zero economy by 2050, and it is oriented heavily toward job creation.

If the Republican Senate leadership reverts to its strategy during the Obama years — outright refusal to work across the aisle on any legislative proposals — then a significant portion of this agenda likely will be compromised. Even without an outright obstructionist strategy led by Majority Leader Mitch McConnell, with the Senate staying in Republican hands it is likely that appropriations will nevertheless remain an ongoing constraint.

However, given that the U.S. is facing significant ongoing economic disruption caused by the COVID-19 pandemic, there is a serious prospect of some of the Biden climate plan passing the Senate in the form of elements embedded in an early COVID relief and recovery effort.

A COVID recovery bill under a Biden presidency will likely look very different from recent stimulus proposals and will almost certainly include environmental elements linked to job creation, in line with the approach in the Biden climate plan. Infrastructure spending could potentially create employment across the country, including in Republican-leaning areas where senators will come under political pressure to support additional fiscal stimulus. While legislation is unlikely to be passed before Inauguration Day, work on the shape of the package has already begun.

Moreover, the White House retains significant executive powers that a Biden presidency will exercise in pursuit of its climate and energy objectives.

In a November 4 tweet, the President-elect confirmed that his administration would rejoin the Paris Agreement. It can do so without congressional approval, and such a move would be positive for the international climate effort. While other leading countries and regions have doubled down on their commitments to tackle climate change, a lack of leadership from the U.S. has undoubtedly slowed progress.

On the domestic front, the measures spelled out in 2015 by the Obama administration to meet its Paris goal — a 26-28% reduction in greenhouse gas emissions by 2025, compared with 2005 levels — were designed to be achievable through executive action alone.

The Biden White House will likely restore some version of Obama's Clean Power Plan, which attempted to reduce power sector emissions and promote renewables. It could also take additional emissions reducing executive actions, such as improved vehicle energy efficiency standards and reductions in methane

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

General Fund Information:
☎ 800.767.1729
Shareholder Account Information:
☎ 800.372.7827

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Printed using soy and vegetable based inks.

PAX009595 4/21

The Physical Risks of Climate Change: Building a Resilient Response

By Ian Simm, Founder and CEO of Impax Asset Management

Reflecting on Climate Week 2020, I'm struck by what a crucial period we are entering for our global response to climate change. In advance of the COP26 conference in November 2021, efforts to tackle this critical problem are intensifying, and if the outcomes are to be deemed a success, it's essential that action is targeted, well-resourced, coordinated and timely.

Against the backdrop of repeated extreme weather events around the world, the year since Climate Week 2019 has seen school children on strike, an unprecedented wave of public climate demonstrations around the world and sustained media coverage of climate issues. It's clear: Climate change is already here and intensifying, and so are the risks. Everyone is affected — either firsthand, through floods, hurricanes, drought or extreme temperatures, or through interconnections in global financial, economic and social systems.

There is a growing consensus that the physical risks of climate change can no longer be viewed as a distant problem. As Impax outlines in a new report, they pose material and immediate risks to investors. One study from the Grantham Research Institute of Climate Change and the Environment at the London School of Economics and Political Science estimates that the "climate value at risk" of global financial assets could reach up to a staggering US$24.2 trillion by 2100.[1] Additionally, the Carbon Disclosure Project recently reported that 215 of the world's largest companies expected almost US$1 trillion of value at risk from climate change within the next five years.

Early action to assess, manage and price the risk transparently and comprehensively will most likely be justified if investments are to remain resilient. Yet, despite rapidly mounting evidence of the need to act, many investors are only now beginning to consider physical climate risks and the potential impact on their portfolios.

"It's clear: Climate change is already here and intensifying, and so are the risks."

For physical climate risk to be assessed and quantified using financial metrics, investors need to understand the degree of uncertainty of model projections and be prepared to alter investment choices as our understanding of future risks improves. Financial decision-making always relies on the forecasting of future events and trends, and while climate risk presents some additional forecasting difficulty, we do know enough to make a start.

Key barriers to the development of actionable decisions include the availability of suitable models and comprehensive data sources and the need for disclosure by companies of the physical location of key assets. Impax is working with our peers in the financial sector to improve the dialogue with environmental scientists in this area; I'm hopeful that investors will be able to access better analytical tools in the near future.

As more investors become aware of the potential impacts of physical risks, there is likely to be greater pressure on companies to disclose these risks and their approach to managing them. In many countries, and in part as an effort to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), regulators are already actively encouraging the development of consensus around relevant metrics. An important recent example of this is the UK's Climate Financial Risk Forum, which made its initial recommendations in June and is now embarking on its second phase of work.

The next decade will be decisive. We believe that as a changing climate continues to alter the very fabric of economies, societies and environments across the world, the investors that can act now to both manage physical climate risks and understand the opportunities to invest in resilience stand to be in the most secure position over the long term.

Read the full report here: impaxam.com/climate-risk.

[1]Based on 2016 USD values

Pinpointing risks

As the physical risks of changing climate continue to increase, we have expanded our engagements on the topic. In October, we teamed up with the New York State Common Retirement Fund to encourage S&P 500 companies to disclose the locations of their physical assets, such as facilities reserves, buildings and installations, whose loss or impairment would impact financial results.

"Flooding, droughts, rising sea levels and other extreme weather events are posing increased risks not only for companies, but their investors, financial markets and the global economy," says Impax Senior Vice President for Sustainable Investing Julie Gorte. "Investors need to understand the nature of companies' physical risks so they can take steps to manage them, or adapt to them, and to price the risks properly in investment portfolios."

In July, we filed a petition for rulemaking with the U.S. Securities and Exchange Commission requesting the agency require companies to disclose precise location data. See that request at: impaxam.com/sec X

New Pax Insights

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

The Investment Case for Sustainability: The Rise of Resilience

A steady stream of new studies shows evidence of sustainability's outperformance in investment.

Read article here: impaxam.com/resilience

The Value of the (Shareholder) Vote: Not Zero

Julie Gorte highlights the principles underpinning a Department of Labor proposal related to proxy voting.

Read article here: www.impaxam.com/value-vote

Conversation Pieces

The Impax Invest in Women Symposium was a smashing success thanks to a fantastic agenda and thought-provoking insight from world-class panelists. Here are some snippets.

"Embrace the (diversity) data. We have years and years of research, and the data doesn't lie. This is not about social impact; this is about competitiveness."

— Rana Nawas, Founder and host of "When Women Win"

"Cognitively diverse teams fight more, and they take longer to make decisions, but they make better decisions and they make more money."

— Daniel Crosby, New York Times bestselling author

"Women have been told our whole lives that we are risk-averse. We are not. We are risk-aware. Women want to understand risk before they take it. Once we understand it, we will take it."

— Sallie Krawcheck, Pax Ellevate Global Women's Leadership Fund Co-founder and Consultant

"Companies are looking at ESG metrics not because ESG is cute or trendy but because it's financially relevant."

— Mindy Lubber, CEO of Ceres

"Over a million people left the workforce in September; 80% of them were women."

— Kweilin Ellingrud, Senior partner at McKinsey & Co.

Shareholder Corner: IRA Contributions

It's January, you can make a 2021 IRA contribution! And, if you haven't yet, you can still make a 2020 contribution until April 15, 2021. Contribution limits didn't change this year. If you are under the age of 50, typically you can contribute the lesser of 100 percent of your earned income or $6,000. If you are 50 years of age or older, you can contribute the lesser of 100 percent of your earned income or $7,000.

Subject to deduction limits, Traditional IRA contributions generally are made on a tax-deferred basis, which means that you may be able to deduct some or all of your contribution from your taxable income. Typically, taxes are paid when funds are withdrawn, presumably in retirement, when you may be in a lower tax bracket.

Subject to income limits, contributions to Roth IRAs are not tax deductible. Since these funds were already subject to income tax, after holding a Roth IRA for five years, certain types of withdrawals, including those taken in retirement, can be made on a tax-free basis.

For more information about your eligibility or the differences between Traditional and Roth IRAs, please see IRS Publication 590A, "Contributions to Individual Retirement Arrangements," at www.irs.gov, or call the IRS at (800) 829-3676 to order a copy.

You can open a new IRA or Roth IRA or you can make a contribution to an existing account through online account access at impaxam.com/account. For assistance, or for other options, please call Investor Services at (800) 372-7827. **X**

Please note that the information above does not constitute tax advice. State tax regulations may differ from federal tax regulations. Always consult your tax advisor before making any tax-related investment decision.

THE WHITE HOUSE VERSUS THE SENATE, **CONTINUED from FRONT PAGE**

emissions from the oil and gas sector. The White House could also advance its climate agenda through the federal government's enormous procurement spend. This could extend to the U.S. military, which has increasingly expressed concern about the security implications of climate change.

The president can also wield significant influence through personnel appointments, and the appointment of former U.S. Senator John Kerry to lead climate change efforts from the White House is a positive sign that the President-elect means business when it comes to a robust climate agenda. A Biden administration will also likely move aggressively to reverse the extensive rollbacks of environmental regulations that occurred under Trump appointees.

It is worth bearing in mind that the clean energy sector has managed to thrive despite four years of indifference, at best, and opposition, at worst, from the Trump administration. Technology cost reductions, supportive state-level policy and strong demand from corporate consumers responding to customer pressure have all helped renewables grow significantly with extremely limited federal support. While ambitious legislative support would provide a significant accelerant, its absence will merely slow, rather than reverse, the sector's growth.

Certainly, the inability of the Democrats to gain a majority in the Senate — if that is confirmed by one or two Republican victories in the Georgia special elections — will disappoint advocates for clean energy and climate action. But there is much a Biden administration can do to address climate change and other sustainability challenges facing the U.S. and the world — challenges that a re-elected President Trump would likely have ignored. Thus, there is reason to be cautiously optimistic but optimistic nevertheless. **X**

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