



## Pax World Mutual Funds

**United Nations Global Compact  
2012 Communication on Progress  
Pax World Management LLC  
Submitted January 2, 2013**

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### Statement of Continued Support

Pax World (Pax) was one of the first investment managers to integrate Environmental, Social and Governance (ESG) factors into our investment analysis and decision making through a process known as sustainable investing. As part of our core mission, we analyze each potential investment not only for its financial characteristics, but its impact on the environment, its workers and supply chain, communities and customers. We also examine the governance of the enterprise issuing securities, as governance affects every other aspect of the management of any enterprise.

Pax believes that this approach is deeply compatible with the Ten Principles of the United Nations Global Compact, and every one of those Principles is reflected in our ESG analysis, shareowner and public policy advocacy, as well as in our own approach to managing our own company. This Communication on Progress provides brief descriptions of some of the steps we have taken in 2012 to implement those Principles throughout our own organization and in our approach to investment.

Pax's activities support the letter and principles of the Global Compact in several ways. First, we strive to invest in companies or other enterprises issuing securities that are leaders in advancing sustainability, which we define in much the same way that the Global Compact does: environmental impact, workplace practices, respect for human rights, and avoiding bribery. We also engage with companies to help them improve their own sustainability. Many times we engage with companies through coalitions, such as Ceres, the Investor Network on Climate Risk, the Carbon Disclosure Project and the Forest Footprint Disclosure initiative. At other times, we engage with individual companies on a range of ESG issues. From January through November 6, 2012, we engaged with 27 companies directly, on issues

including sustainability reporting, diversity, environmental impact, human rights, and political spending. We vote our proxies in accord with our belief in corporate sustainability, and we have been a leader in advancing gender diversity on corporate boards.

Pax is also attentive to its own sustainability. As noted in our 2011 Communication on Progress we have assessed our own policies, programs and performance with regard to sustainability, and as a result of that work we are taking additional steps to assure that we have appropriate policies, monitoring programs, accountability and goals in place for all the places where our business affects sustainability. Based on this work, we intend to publicly report on these efforts in the near future.

In short, Pax continues to be deeply committed to the Ten Principles. This Communication on Progress reaffirms Pax's continuing commitment to the UN Global Compact.

Sincerely,

Joseph F. Keefe  
*President and CEO*  
Pax World Management LLC  
1/2/2012

## **Practical Actions Taken During the Previous Year: Human Rights**

### **Assessment, Policy and Goals**

Pax considers human rights issues in our Environmental, Social and Governance (ESG) analysis of every security issuer considered for an investment in any of Pax's actively managed funds. Pax believes that human rights problems can impose legal and reputational risks, and are also an indicator of the quality of corporate management. Pax believes it is the responsibility of businesses to protect and uphold human rights. Though the list of human rights issues that companies face is extensive, there are certain current human rights issues that Pax is paying particular attention to.

1. **Repressive Regimes:** Pax seeks to invest in companies that are transparent about operations in places where repressive regimes are in power. Pax generally avoids investing in any company with direct involvement in conflict and those with a history of problems and inadequate disclosure or policies regarding operations in countries with repressive regimes. This applies to all conflict zones, including, but not limited to the Sudan.
2. **Human Trafficking:** Pax seeks to invest in companies that have policies in place that prohibit human (labor and sex) trafficking and have programs in place to educate employees and consumers about related risks. Pax generally avoids investing in companies that have been involved in human trafficking and have failed to take steps to prevent additional problems. Pax

may also avoid companies with policies and programs if records indicate they have been ineffective in preventing involvement in trafficking.

3. Negative Images & Stereotyping: Pax examines whether companies use demeaning or negative images of indigenous peoples, women or other identifiable groups in their advertising, brands, or mascots. Pax generally avoids investing in those companies whose practices are deemed to be problematic – e.g., when they have refused to negotiate with or acknowledge stakeholders and/or when such stereotyping is judged to be particularly offensive or destructive of cultures or groups.

When considering a company's human rights record, Pax generally avoids investing in companies with a history of human rights abuses and no policy or disclosure regarding human rights. Pax may also avoid companies with policy/programs if the record indicates the policy or programs are ineffective. We believe that the application of these criteria to our investment process helps to distinguish companies that manage their operations carefully with respect to human rights, and that that investment discipline, when it is practiced by many investors, may help companies that are attentive to human rights-related risks to outperform their less enlightened peers over time. Moreover, by incorporating these criteria into our investment process, we believe that our funds will be less vulnerable to regulatory, legal and reputational risks.

## Implementation

Our human rights criteria, as it applies to our products, are implemented during our evaluation of securities for investment in our actively managed portfolios. In addition, we engage companies and other entities in shareholder activism related to a myriad of issues, including human rights. In 2012, we were a signatory to two letters related to this topic. This work supports the Global Compact Principles 1 and 2 on human rights.

1. Principles for Investors on Inclusive Finance: As previously reported, Pax was a signatory to the Principles for Investors in Inclusive Finance, sponsored by the United Nations-backed Principles for Responsible Investment (PRI). Inclusive finance carries with it the responsibility for all actors in the value chain - investors, retail financial service providers and other relevant stakeholders - to understand, acknowledge and act in accordance with the interests of the ultimate client. Clients are typically low-income and constrained by asymmetries in financial knowledge, power and influence. Access to finance must be provided in such a way that the interests of the clients are protected.
2. Human Trafficking Legislation: Pax World signed on to a letter addressed to Republican leadership members in the US House of Representatives supporting the Business Transparency on Trafficking and Slavery Act (HR 2759) and other anti-trafficking legislation with several other asset managers. The bill itself requires companies with a minimum of \$100 million in gross receipts to report to the U.S. Securities and Exchange Commission (SEC) and on their website

about efforts to address trafficking and slavery within their organizations (including supply chains).

3. Human Trafficking at the 2012 Olympics: Pax signed onto a campaign to raise the issue of human trafficking with Olympic sponsors, providers, suppliers, and partners and major hotels with chains in the London-area in advance of the 2012 Summer Olympics. Companies that received letters from Pax included Bayerische Motoren Werke (BMW), Starwood Hotels & Resorts Worldwide, Cisco Systems, and United Parcel Service.

## Measurement of outcomes

1. Principles for Investors on Inclusive Finance: Pax invests in several community investment notes through various organizations. As of November 6, 2012, Pax held approximately \$4,762,000 in these types of investments with several institutions, including One Pacific Bank, Urban Partnership Bank, Self Help Credit Union, Hope Credit Union, Calvert Foundation and Coastal Enterprises, Inc.
2. Human Trafficking Legislation: Currently, the Business Transparency on Trafficking and Slavery Act (HR 2759) is assigned to the House Committee on Financial Services. Pax will continue to monitor this legislation and we will continue to work with various groups, such as the Alliance to End Slavery and Trafficking (ATEST), to help end human trafficking.
3. Human Trafficking at the 2012 Olympics: To date, all four companies have responded to our letter. BMW provided an overview of its human rights policies and programs, but did not specifically address the issue of human trafficking, while Starwood's response included a specific commitment to conduct training or provide/make available training material to staff in advance of the Olympics.

## Practical Actions Taken During the Year: Labor

### Assessment, Policy and Goals

Pax incorporates an assessment of the workplace practices of all companies and other security-issuing enterprises in our investment process, and each security or company must meet or exceed our minimum standards for sustainable workplace practices before it is approved for investment in our actively managed portfolios. We believe that the application of these criteria to our investment process helps to distinguish companies that manage their operations carefully with respect to labor, and that that investment discipline, when it is practiced by many investors, may help companies that are attentive to labor-related risks to outperform their less enlightened peers over time. Moreover, by incorporating these criteria into our investment process, we believe that our funds will be less vulnerable to regulatory, litigation, and reputational risks.

Our workplace practices criteria cover diversity and inclusion, workplace safety, and labor-management relations.

1. Diversity and inclusion: Pax believes that companies that effectively attract, hire, retain, and promote women and people of color are better equipped to capitalize on competitive opportunities and avoid missteps that might not be apparent to a more homogenous group. Pax also believes that those companies that are successful in promoting diversity at the most senior levels of their business will tend to outperform those that fail to embrace diversity. This belief is supported by academic research. We believe that there are also several less tangible benefits associated with support for diversity which include increased workforce morale, productivity, teamwork and support for organizational goals and values.

Pax believes the importance of embracing diversity throughout the workforce is particularly important for companies that produce or sell consumer products or services, especially those in the consumer discretionary and financial sectors. It is estimated that women comprise more than 50% of the U.S. population and are responsible for 80% of consumer purchasing decisions in U.S. homes. The U.S. Department of Commerce estimates that the country's minority population could contribute to between 44% and 70% of the total increase in purchasing power between 2000 and 2045. As women and minorities continue to increase their economic influence and control over purchasing decisions, companies that effectively market to them will have increasing competitive advantages.

There is also anecdotal evidence that suggests that failing to embrace diversity can result in reputational damage and costly litigation. In 2000, Coca Cola paid \$192.5 million to settle claims that it discriminated against black employees in its compensation, evaluation, and promotion practices. In 1997, Home Depot paid \$104 million to settle gender discrimination charges. In July 2004, Morgan Stanley settled a gender discrimination lawsuit brought by the EEOC on behalf of female employees for more than \$54 million. More recently, Switzerland-based drug maker Novartis agreed to pay approximately \$250 million in damages for discriminating against thousands of U.S. based female sales representatives over pay, promotion and pregnancy in May 2010 and in July 2011, Verizon Communications agreed to settle a nationwide Americans with Disabilities Act (ADA) lawsuit by agreeing to pay approximately \$20 million in monetary relief. While the sheer size of these settlements makes them significant, there are also intangible costs, including brand risk, loss of employee morale and productivity and loss of stakeholder confidence. All of these outcomes can distract from a company's ability to operate efficiently and serve the best interest of shareholders.

2. Workplace safety: Pax believes a company's commitment to workplace and employee safety is a key component of its overall sustainability profile. The costs of workplace accidents can grow quickly when factoring in workers' compensation payments, legal expenses associated with litigation, regulatory penalties and compliance costs. Liberty Mutual Group's 2011 Workplace Safety Index estimated that direct U.S. workers' compensation costs for the most disabling workplace injuries and illnesses in 2009 were \$50.1 billion. However, the indirect impacts associated with workplace accidents can be just as costly and include diminished productivity, decreased worker morale and damage to a company's reputation or brand image. Given that

many of these costs can be avoided through the effective implementation of strong safety programs, Pax believes that companies that do so are generally better managed. In fact, *Professional Safety* reported Liberty Mutual Group's Executive Survey of Workplace Safety" found 95 percent of business executives reported workplace safety had a positive impact on financial performance. Of that group, 61 percent believed they received a return on investment of three dollars or more for every one dollar invested in workplace safety programs.

For companies operating in particularly high risk industries such as energy, utilities, materials and industrials, Pax considers workplace safety to be a key issue. When evaluating a company's workplace safety profile, Pax generally favors companies that disclose comprehensive safety policies, management systems and information regarding the implementation of such programs. In addition, Pax favors companies that disclose standard safety statistics such as lost-time rate, accident severity rate and fatalities, in addition to setting measurable safety performance targets. For companies based in the United States, a company's record with the Occupational Safety and Health Administration (OSHA) is examined in terms of the frequency of documented safety violations, the type of safety violation and the size of associated penalties relative to the size of their U.S. workforce. Pax also examines forward-looking indicators such as companies' safety certifications, including OHSAS 18000, an international occupational health and safety management system, and OSHA's Voluntary Protection Program, a program that recognizes a facility for excellence in safety and health management. For companies operating in other countries, Pax uses comparable information from in-country regulatory bodies and voluntary organizations when it is available.

3. Labor-management relations: Pax believes that constructive labor management relations are an indicator of sound management and a sustainable business model. The body of academic research on human resources management and labor relations, while not homogenous, does indicate a positive correlation between inclusive labor practices and financial performance. Research on labor and performance covers a range of issues. Employee stock ownership has been positively correlated to financial performance. A 2004 study of labor relations in the airline industry concluded that factors such as union representation, workplace culture and conflict resolution in negotiations are positively correlated with profitability in the airline industry. A 2004 study of research into human resource management (HRM) practices identified a positive correlation between active HRM and organizational performance. A 2006 study of research into high performance workplace practices (HPWP) and organizational performance found a positive correlation between the two.

Consistent with these trends in the academic research, Pax believes that companies with positive labor relations and human resource management programs are likely to be better managed companies and better long-term investments. Labor management is a particularly important issue in the global business context, where the opportunities and challenges can be complex and vary significantly by region. To include these considerations in its analysis, Pax

evaluates, among other factors, companies' labor management relations policies, programs, performance and public disclosure.

Pax favors companies with positive labor relations and seeks to invest in companies that have sound policies, effective programs and public disclosure on labor management issues. Pax looks for labor policies including support of the right of workers to bargain collectively with management, non-retaliation against whistleblowers and the adoption of supplier labor standards that are consistent with international standards like the International Labor Organization ("ILO") principles. Pax seeks companies with programs that address work-life balance issues, promote employee ownership, create incentives for positive labor practices in the supply chain and provide labor consultation mechanisms or support labor standard performance monitoring. As in other environmental, social and governance (ESG) issue areas, public disclosure is an important piece of human resources management.

## Implementation

1. Global Women's Equality Fund (PXWEX): One of Pax World's funds, the Global Women's Equality fund, seeks to invest primarily in large companies around the globe that are leaders in promoting gender equality and women's advancement. Gender analysis is performed on each potential investment to assess women's representation on the board and in senior management, as well as other indicators of gender leadership.
2. CSR assessment: In addition to using these criteria to construct our portfolios, Pax also has a human resources handbook that addresses all three issues. We also have standing committees on Corporate Social Responsibility (CSR Committee) and Safety and Health. These committees meet regularly to assess Pax's performance and adjust policies and programs accordingly. While we believe that our current workplace policies are consistent with progress toward sustainability, we also know that no policy statement or implementation program is perfect, and we must always be vigilant to assure that both are responsive to a changing landscape of issues. As noted in our 2011 Communication on Progress, Pax examined our own policies and programs relating to environmental, social and governance factors. As a result of that assessment, Pax's CSR Committee has initiated a process of reviewing in detail each of our workplace policies, programs, monitoring and accountability assignments to assure that our own workplace practices address all relevant factors and that they are implemented well. When that review is complete, Pax will make any needed adjustments to our own workplace policies, implementation programs and monitoring and assure that there is accountability for all these facets. Based on this work, we intend to publicly report on these efforts in the near future.
3. Key Issue Briefs: As part of our ongoing ESG research, Pax published a key issue brief on occupational safety, which can be viewed on our website at <http://www.paxworld.com/investment-approach/sustainability-research/key-issues-briefs/occupational-health-safety>.
4. Pay equity: As we did last year, Pax World conducted a gender pay equity survey. The results of that survey are in the table below. In any company as small as Pax, a disparity may arise in pay



equity due to the compensation of one or two individuals, and those differences may arise due to variations in qualifications and responsibilities.

**Gender Pay Equity Analysis As of  
December 31, 2012**

<b>Job Function</b>	<b>Salary Ratio Women to Men</b>
<b>Directors</b>	<b>0%</b>
<b>Portfolio Managers</b>	<b>127%</b>
<b>Senior Vice Presidents</b>	<b>75%</b>
<b>Senior Managers</b>	<b>119%</b>
<b>Senior Analysts</b>	<b>109%</b>
<b>Analysts</b>	<b>96%</b>
<b>Professional Staff</b>	<b>106%</b>
<b>General Staff</b>	<b>141%</b>

5. Board diversity: Pax believes that one of the most important indicators of corporations' true commitment to gender diversity throughout the organization is board diversity. In 2012, Pax continued its efforts to help achieve better gender balance on corporate boards.
  - A. 30% Coalition: In June 2012, institutional investors with approximately \$1.2 trillion in assets under management, along with national women's organizations, wrote to the 41 companies in the S&P 500 Index that do not have any women on their boards. In August 2012, the Coalition sent follow-up letters to companies that did not respond to the letter. Shareholder resolutions are being considered for the 29 companies that did not provide a response to the letter. Institutional investors are currently evaluating filing opportunities with these companies and will finalize the list of target companies over the next few weeks. Pax's CEO, Joe Keefe, serves as the Chair of the Coalition's Institutional Investor Committee, which has been coordinating this initiative.
  - B. Board Diversity Shareholder Resolutions: In 2012, Pax was the lead filer of a shareholder resolution filed at two companies asking for increased disclosure on board diversity policies, and while we were unable to file at a third company we did notify the company of our interest in nominating committee charter language requiring that diversity be part of every director search. The companies included Roper Industries, Riverbed Technology and Hospitality Properties Trust.
  - C. UN Women's Empowerment Principles: Pax also sent 32 letters asking companies to become a signatory to the UN Women's Empowerment Principles, which are guidelines on how to empower women in the workplace.



- D. Proxy Voting Guidelines: Pax also revised its own proxy voting criteria to strengthen the message on board diversity. Pax, like many other investors, is concerned that far too many boards have no women on them; of nearly 3,400 companies covered by the governance rating service Governance Metrics International, nearly 37% (42% of more than 4,200 in 2011) had no women. Moreover, 35% of those boards included only one woman. Only about one-fourth of boards of large companies around the globe include two or more women. While several countries have taken steps to improve the gender diversity of boards, progress remains far too slow, and it appears that many companies are content to call their own boards “diverse” if they include just one woman. As a result, whereas we have long opposed director slates that include no women, in 2011 we modified our own proxy voting guidelines to withhold votes from or vote against all slates of directors that do not include at least two women in the majority of cases (we make an exception in countries where the national average for board gender diversity is less than 5%). Our proxy voting guidelines and voting record are posted at <http://www.paxworld.com/investment-approach/shareowner-activism/proxy-voting>.

## Measurement of Outcomes

While the final outcome of Pax assessment of its own workplace practices policies, programs and performance is not yet complete, we have already identified several areas where our policies could be improved, and areas that should be publicly disclosed.

1. Pax Internal Pay Equity Review: Our pay equity review determined that there is no significant disparity of the pay of men and women at Pax, and we determined that no further action is necessary to assure gender pay equity, beyond continued monitoring.
2. 30% Coalition: As of October 1, 2012, the 30% Coalition has received responses from 12 companies. Generally, the responses have been positive, embrace the importance of diversity and note that it is a priority in board searches. The Coalition plans to continue dialogue with these 12 companies. Those companies that have not already done so will be urged to formalize their commitment to board diversity by adopting nominating committee charter language that specifically references gender and ethnicity as a desired characteristic in all director searches. Companies will also be provided with a set of best practices and resources for achieving board diversity, and the Coalition will request meetings with the chair of their nominating committee. In the longer term, the Coalition plans to undertake a similar engagement with the 179 companies in the Russell 1000 that do not have any women on their boards.
3. Shareholder Engagement: As a result of our company engagement efforts, Pax withdrew its shareholder proposal from Roper Industries and agreed not to file at Riverbed Technology after both companies agreed to change their corporate governance guidelines to more clearly outline their commitment to board diversity.
4. UN Women’s Empowerment Principles: Pax received seven responses to our letters. While no companies agreed to directly endorse the Principles, all the companies that responded noted that they were working to empower women in their respective workplaces.

5. Proxy Voting Results: As a result of Pax's proxy voting policy to oppose slates of directors with insufficient gender diversity, Pax voted against or withheld votes from slates of directors at 307 companies.

Proxy Voting Summary- 7/1/2011-6/30/2012	
Total Ballots	1641
Meetings	774
Number of Countries with Ballots	38
Total Proposals	9607
Number of Boards Voted Against- No Women on Board	128
Number of Boards Voted Against- Less than Two Women	179

## Practical Actions Taken During the Year: Environment

### Assessment, Policy and Goals

Pax incorporates an assessment of the environmental impacts of all companies and other security-issuing enterprises in our investment process, and each security or company must meet or exceed our minimum standards for environmental management before it is approved for investment. We believe that by incorporating these criteria into our investment process, our funds will be less vulnerable to regulatory, litigation, and reputational risks. We believe that this work supports Principles 7, 8 and 9 of the UN Global Compact.

Our criteria for the environment include such issues as air and water emissions, recycling and waste reduction, use of clean and renewable energy, climate change initiatives, and other policies and practices focused on attaining and promoting environmental sustainability. Generally, we favor companies with comprehensive environmental policies, practices, and performance, those with good environmental performance compared with their peers, and those that are working to manage and reduce their environmental impacts. We seek to avoid companies with inadequate environmental policies, management systems, performance and reporting. By specifically examining each company's environmental policies, we believe that this analysis supports Principle 7, and by examining programs implementing environmental policies and goals that our environmental analysis supports Principle 8.

Pax offers one environmental fund, the Pax World Global Environmental Markets Fund (PGRNX), whose investment objective is to seek long-term growth of capital by investing in innovative companies around

the world whose businesses and technologies focus on environmental markets, including renewable energy and energy efficiency, water pollution control and environmental services, and waste management. Because of this focus, we believe that this product supports Principle 9.

## Implementation

In addition to using environmental criteria in the construction of all Pax's actively managed funds, we also seek to invest in solutions to environmental problems. In 2011, Pax invested \$2 million in newly-issued World Bank Green Bonds. We also work to minimize our own environmental impact, and conduct shareholder activism in order to urge other companies and regulators to improve their environmental performance and policies.

1. CSR Assessment: As previously reported, Pax's CSR Committee is in the process of reviewing in detail our environmental policies, programs, monitoring and accountability assignments to assure that our own workplace practices address all relevant factors and that they are implemented well. When that review is complete, Pax will make any needed adjustments to our own environmental policies, implementation programs and monitoring and assure that there is accountability for all these facets.
2. Environmental Programs: Pax World's existing environmental policy and programs include measures to minimize the use of office supplies, including paper; recycling of paper, glass, metal, plastic and batteries; increase energy efficiency and minimize emissions associated with energy use, including travel-related emissions; and the use of environmentally-preferred office supplies. We also have a hybrid vehicle incentive program that provides regular full-time employees with a \$2000 lump sum cash payment for the purchase or lease of a hybrid gas-electric vehicle.
3. Greenhouse Gas Emissions Offset: As we have done for several years, Pax also continued in 2012 to purchase renewable energy offsets in order to offset our emissions, including those from travel. In 2012, Pax's carbon offsets were purchased from Native Energy to help fund their Northeast Farm Separation Project. This project helps a dairy farm in Mercersburg, PA to separate volatile solids from manure to help address issues of manure runoff, greenhouse gas emissions, odor and pathogens. Altogether, the separation systems on these farms will reduce approximately 72,000 metric tons of greenhouse gas emissions by treating the manure of over 1,500 cows. The project and its methane reductions are validated by an independent, accredited third party according to the Verified Carbon Standard, and registered with the Markit Registry.
4. Shareholder Engagement: Pax participated in several investor environmental initiatives in 2012. As we have in the past, Pax continues to be a signatory to the Carbon Disclosure Project (CDP), including the CDP, CDP Water Disclosure, and Carbon Action; the Forest Footprint Disclosure Project; and the Investor Network on Climate Disclosure. Pax continued its participation in a structured engagement through the United Nations Principles for Responsible Investment (PRI) for the CDP Water Disclosure initiative and another engagement for CDP on the CDP Leadership Initiative (CDPLI). Pax is also a member of the Ceres coalition, and through that coalition, we have participated in multi-stakeholder working groups on sustainability for

American Electric Power, Disney, Timberland, North Face, Sodexo, Green Mountain Coffee, Deckers Outdoor and Best Buy. In addition, Pax was also a participant in several other environmental initiatives during 2012. These are listed briefly below.

- A. Pax sent or signed on to several investor initiatives regarding corporate environmental performance. While these may not have positive measurable outcomes in the short run, we believe that this advocacy helps to raise company and consumer awareness of emerging environmental issues and will eventually affect corporate management of environmental risks. In coordination with the Investor Environmental Health Network (IEHN), we sent letters to Apple, AT&T and Google asking for greater disclosure regarding the companies' policies governing the sourcing and disposal of lead batteries as they relate to use in data centers and cellular towers; and a letter to several companies, including Time Warner, Starwood, Levi Strauss, Amazon.com and Whole Foods encouraging them to participate in the Forest Footprint Disclosure (FFD) project. Similarly, Pax sent letters to Kraft Foods and Teva Pharmaceutical Industries encouraging the company's to respond to the Carbon Disclosure Project's (CDP) water disclosure survey. The letters were a follow-up to a letter that the company previously received from the PRI regarding the CDP water disclosure survey.
- B. As previously reported, Pax co-filed a shareholder resolution with Calvert Investments at Amazon.com at the end of 2011 asking the company to report on climate change and energy use related to its data centers.
- C. Pax signed on to several investor initiatives urging public policy action on various environmental issues. Again, these may not have immediate positive outcomes, but without private-sector advocacy for strong environmental regulations, such action might never happen. We believe that maintaining a strong and consistent investor voice in favor of appropriate environmental regulation is a critical input to the progress of environmental policy. These initiatives in which Pax participated as a signatory include the following:
  - a. Pax endorsed a letter to the U.S. Congress, organized by the Investor Network on Climate Risk (INCR), urging the extension of the production tax credit for wind energy.
  - b. Pax signed on to an investor letter sponsored by Ceres to the newly formed oil sands industry collaborative named Canada's Oil Sands Innovation Alliance (COSIA). Investors laid out clear and specific expectations for how the industry can improve its environmental and social performance.
  - c. Pax signed on to a comment letter to the U.S. Environmental Protection Agency (EPA) on the environmental assessment of the impact on the proposed Pebble Mine project in the Bristol Bay, Alaska region.
  - d. Pax signed on to a letter, sponsored by the American Sustainable Business Council, to EPA Administrator Lisa Jackson in support of the adoption of the Greenhouse Gas New Source Performance Standard or the Carbon Pollution Standard for New Power Plants, which would establish a national carbon pollution standard for new power plants for the first time.

- e. Pax signed on to a letter calling on the U.S. Senate to oppose a resolution introduced by Senator James Inhofe (R-OK), that utilizes the Congressional Review Act (CRA) to prevent EPA from implementing the Mercury and Air Toxics Standards (MATS) for power plants.
- f. Pax participated in an engagement, managed by Ceres and the Investor Network on Climate Risk (INCR), with companies involved in the oil sands region of Canada on greenhouse gas emissions (GHGs), impact on indigenous peoples, and water withdrawals resulting from oil sands development.
- g. Pax signed the Forest Footprint Disclosure's (FFD) annual letter to companies exposed to risks related to deforestation asking them to participate in the FFD project, which supports global certification standards to help avoid deforestation.
- h. Pax World signed a letter sponsored by Green America endorsing the campaign to establish Clean Energy Victory Bonds, which would be U.S. Treasury bonds that will be available for as little as \$25. The bonds would encourage and reward citizen investment in the burgeoning domestic clean energy industry.
- i. Pax endorsed the Natural Capital Declaration for Rio+20, a CEO-level statement by the financial sector demonstrating its commitment towards integrating natural capital criteria into financial products and services while calling upon governments to provide the framework for doing so. It will be launched during the UN Conference on Sustainable Development (Rio+20 -Rio de Janeiro, 20 – 22 June).
- j. Similarly, Pax signed on to the Convention on Corporate Sustainability Reporting at Rio+20 sponsored by Aviva Investors. The coalition calls on United Nations member-states to adopt, at the 2012 Earth Summit, a binding international commitment to develop national regulations which mandate the integration of material sustainability issues in the annual report and accounts.
- k. Pax endorsed a letter sponsored by the INCR, urging Congressional leadership to support the extension of the Production Tax Credit (PTC) for wind energy, which is set to expire at the end of 2012. The letter argued that the PTC has played a critical role in spurring clean energy investment, which has had positive implications for American competitiveness and jobs and the effort to mitigate climate change.
- l. Pax signed a letter sponsored by Trillium Asset Management, Calvert Investments, the Oneida Tribe of Wisconsin, and Christian Brothers Investment Services seeking to have Target Corp. issue a statement in support of the EPA's environmental assessment of Bristol Bay, the location of the Pebble Mine. The Pebble Mine has come under intense scrutiny for its environmental impact on local water bodies. Target Corp. had reportedly signed "The Golden Rules" (which articulate the company's support for responsible gold sourcing policies and practices), but had yet to join the Bristol Bay Protection Pledge.

- m. Pax signed on to a letter addressed to the CEOs of companies with major shale oil holdings. The production of shale oil carries with it all of the environmental risks that accompany shale gas production. In addition, companies producing shale oil frequently burn off large amounts of associated natural gas, claiming that high oil prices and low natural gas prices make it uneconomic to capture and get to market. The letter seeks information about the amount of flaring, as well as details about plans to reduce flaring at existing wells and prevent it at future wells at the companies.
- n. Pax signed a letter supporting proposed federal fuel economy and greenhouse gas (GHG) standards for vehicles from 2017 through 2025. These regulations will represent the most significant U.S. policy advance in curbing GHG emissions in history.
- o. Pax sent a letter to Procter & Gamble urging the company to adopt an extended producer responsibility system. These systems can provide benefits such as more efficient and sustainable use of materials, reduce harmful emissions, create new “green” jobs, and promote stronger product stewardship profile for companies.

## Measurement of Outcomes

1. CSR Assessment: As noted throughout this report, Pax has assessed our own policies, programs and performance with regard to our internal environmental sustainability, and as a result of that work we are taking additional steps to assure that we have appropriate policies in place, monitoring programs, accountability and goals or targets for all key issues of sustainability. Based on this work, we intend to publicly report on these efforts in the near future.
  - A. Pax offset 250 metric tons CO<sub>2</sub> through its carbon offset for the year ended 2011. The majority of our carbon footprint is related to employee commuting (43.6%) and air travel (35.2%), while building and energy use (17.6%) and accommodations (3.6%) accounted for the remainder of our carbon footprint.
2. Shareholder Engagement: In terms of our shareholder engagement, some of the work does not have measurable outcomes, or is ongoing work that may have effects over several years. Where we have information, we have provided it on the outcomes of our environmental advocacy below.
  - A. In March 2012, we received a response from Amazon.com indicating that our shareholder proposal asking the company to report on climate change and energy use related to its data centers would be included on the company's 2012 proxy. The company recommended that shareholders vote against the proposal; however, the proposal received 18.5% ‘Yes votes’ compared to 17.8% in 2011.
  - B. In March 2012, Pax World was pleased to learn Target Corp. discussed with its industry trade group, the Food Marketing Institute (FMI)—concerns about mining threats to the salmon fishery in Bristol Bay, Alaska. The dialogue resulted in the FMI sending a letter to the EPA in support of the environmental assessment of Bristol Bay.

## Practical Actions Taken During the Year: Anti-Corruption Principles

### Assessment, Policy and Goals

Pax incorporates an assessment of corporate governance impacts of all companies and other security-issuing enterprises in our investment process, and each security or company must meet or exceed our minimum standards before it is approved for investment. Pax believes that strong, transparent corporate governance policies are the foundation for a company's long-term sustainability. As with our other sustainability criteria, we believe that examining corporate governance practices provides us with crucial insight into the quality of a company's management.

When evaluating a company for investing, Pax examines the firm's governance structures, practices such as executive compensation and protection of shareholders' rights, and compliance with securities and accounting statutes. In addition, we specifically review each company's policies and performance related to bribery, corruption, and money-laundering as a key governance issue. This includes an examination of settlements and compliance with the Foreign Corrupt Practices Act (FCPA) and other trade import/export controls for U.S. business and those with significant business operations in the US. In industries that are subject to extensive oversight, Pax may evaluate compliance programs and procedures related to political contributions, which can also raise concerns related to bribery and corruption. We believe that this work supports Principle 10 of the UN Global Compact.

### Implementation

In addition to using governance criteria in the construction of Pax's actively managed funds, we also work to improve and strengthen our own corporate governance through implementing effective compliance programs and policies, including anti-corruption principles. Pax's Code of Ethics states that the company will not condone any violation of the law, dishonesty, or unethical business dealings by any employee, including payment for, or other participation in, any illegal act, such as bribery, fraud, theft, money-laundering, or so-called "pay-to-play" practices. In addition, Pax World has several internal compliance policies aimed at preventing corrupt business practices within the company. These policies specifically address ethics/conduct, money-laundering, "pay-to-play," and insider trading. Pax requires that all employees avoid conflicts of interest within its business operations. Pax also has a whistleblower and non-retaliation policy, which is found in our internal employee handbook. We believe that this vigilance supports the Global Compact Principle 10.

1. Gift and Entertainment Policy: Pax has a detailed gift and entertainment policy that clearly outlines the company's policy to avoid conflicts of interest. Specifically, the policy requires that supervised persons should avoid, or not accept or provide any gifts or favors that might influence business decisions within the company. Our premise for this policy is that giving,



receiving or soliciting gifts may give rise to an appearance of impropriety. This policy also includes reporting requirements for supervised persons for the purpose of helping Pax monitor the activities of its employees.

2. Insider Trading Policy: Pax has a detailed insider trading policy that seeks to comply with anti-fraud provisions of federal securities laws, which generally make it unlawful for any person to trade securities for themselves or for their clients while in possession of material non-public information.
3. “Pay-to-Play” Policy: Pax has a policy that seeks to avoid various arrangements by which investment advisers may seek to influence the award of advisory business by making or soliciting political contributions to the government officials charged with awarding such business. As part of this policy, Pax shall not make any political contributions to individuals or state political parties. Although Pax may make contributions to PACs and certain non-profit organizations, we will not do so with the intention of influencing any official of a government entity to which we are seeking to provide services.
  - A. In 2012, Pax signed on to a letter sponsored by Walden Asset Management and the American Federation of State, County and Municipal Employees (AFSCME) urging members of the American Legislative Exchange Council (ALEC) and the Heartland Institute to review the philosophy, major objectives and actions taken by the organizations the company is funding; assess consistency between company policies and codes with those of funded organizations; evaluate management's rationale for membership; determine if the relationship contributes to reputational risk; and assess internal controls regarding use of corporate assets for political purposes.
  - B. Pax World co-signed a letter in partnership with the Center for Political Accountability to the constituents of the S&P 500 related to corporate political expenditures. The letter seeks political spending disclosure and transparency from corporations in the wake of the U.S. Supreme Court's Citizens United decision, which removed all but a handful of restraints on corporate political spending.

## Measurement of outcomes

1. To date, 42 companies that received the letter regarding membership on the ALEC board have left ALEC or its board, and over 20 have left the Heartland Institute.