November 9, 2018

Mr. Brent J. Fields
Secretary
United States Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Via email to rule-comments@sec.gov

Dear Mr. Fields,

Pax World Funds, advised by Impax Asset Management LLC, are a diverse lineup of mutual funds focused on the risks and opportunities arising from the transition to a more sustainable global economy. With more than $4 billion in assets under management, all our funds integrate environmental, social and governance (ESG) research into the investment process.

We practice sustainable investment because we believe that companies that are more sustainable are better investments in the long run, and a substantial body of literature, both financial and academic, supports this. We often engage with companies in our portfolios to urge them to incorporate various aspects of sustainability into their own operations, and at times that engagement uses the shareholder proposal process. We understand that the SEC's November 15 roundtable on the proxy process will also focus on the shareholder proposal process.

Some industry groups have recently challenged that process, including the National Association of Manufacturers (NAM), the U.S. Chamber of Commerce and the new Main Street Investors Coalition (MSIC). We believe that much of what they allege about the motivations of Pax World and other investors that have used the shareholder proposal process is simply untrue, and we would like to set the record straight.

Several criticisms of the shareholder proposal process have sought to portray investors who file shareholder proposals as having no stake in the company's success or in shareholder value creation, without offering any evidence supporting the contention. When we file shareholder proposals, we do so not only because we have a stake in the company's success but because we also have decades' worth of empirical evidence showing that certain ESG issues are indeed correlated with investment value, as measured many ways, including portfolio returns, risk-adjusted returns, Tobin's Q, credit spreads, and access to credit. The appendix to this letter includes several of the more recent papers that make this point, but by no means all; we have collected several hundred such studies, and one recent meta-analysis from Deutsche Bank[1] looked at more than 2,200 individual studies and concluded that the majority of those studies found a positive correlation between ESG criteria and corporate financial performance. Other major financial institutions have helped to reinforce this point. For example:

- Bank of America Merrill Lynch notes that "a company's ESG performance is a reliable indicator of its future stock performance," and "progressive ESG practices make companies less likely to suffer large price declines, and signal significantly better three- to five-year returns on equity than their counterparts and a greater chance of long-term success."[2]

[1] Gunnar Friede, Timo Busch and Alexander Bassen, "ESG and financial performance: aggregated evidence from more than 2000 empirical studies," *Journal of Sustainable Finance & Investment,* Volume 5, Issue 4, 2015.
[2] Bank of America Social and Governance Update, 2018. https://about.bankofamerica.com/assets/pdf/BAC_2017_ESG-Update_online_ADA.pdf

- Morgan Stanley's study, "Sustainable Reality," examined seven years' performance of more than 10,000 mutual funds and 2,900 separately managed accounts, and showed that "sustainable investments usually met, and often exceeded, the performance of traditional investments."[3]

We also note that academic studies of the impact of shareholder engagement on ESG issues also show that such engagement is correlated with increased financial value.

- A 2017 study, "Shareholder Engagement on Environmental, Social and Governance Performance,"[4] looked at shareholder engagements on ESG issues for 660 companies between 2005 and 2014, of which more than 85% were on social and environmental issues. The authors find that engagements did improve the ESG performance of the targeted firms, and that successful engagements, in which the companies agree to do what the investor asks, are associated with increased value: "Successful engagements positively affect sales growth, without changing profitability." A portfolio of targeted firms, moreover, outperforms non-engaged peers by 4.7%.
- A 2015 paper, "Active Ownership,"[5] examined ESG engagements at U.S. public companies between 1999 and 2009. Following these engagements, target companies have a one-year abnormal return that averages 4.4% for successful engagements, and zero for unsuccessful ones.

Ideas like raising the ownership thresholds for filing shareholder proposals or increasing vote-count thresholds for refiling proposals not only ignore this financial case, they also compromise the ability of the real individual investors, whose defined contribution plan is often invested in mutual funds, to have any sort of dialogue with companies in their portfolios. While some asset managers or owners with hundreds of billions in assets can often engage with management and boards as often as they wish, smaller investors' inquiries to companies often die in investor relations departments. Sometimes the only way to get the company's attention and have any kind of engagement relies on the shareholder proposal process. While an ownership threshold of $2,000 may seem low, this has not resulted in an explosion of irrelevant or frivolous shareholder proposals, and if it did, the SEC has the ability to provide companies with no-action relief.

In short, the shareholder proposal process is not broken. It provides the ability for investors of all sizes a way to communicate with boards, who are there to represent them, and it provides an avenue for investors to bring value-enhancing ideas to boardrooms and executive suites. One of the reasons companies have boards is to bring different, diverse viewpoints to the attention of management. The shareholder proposal process is a way to help companies and their boards with that function, and it has been shown to enhance value for shareholders.

We respectfully urge the SEC to consider the business and financial case for shareholder engagement and reject the campaigns of NAM and the Chamber of Commerce and others who seek to portray it as non-financial, expensive and politically motivated. It is none of those things.

Sincerely,

Julie Fox Gorte
Senior Vice President for Sustainable Investment
Pax World Funds

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[3] Morgan Stanley Institute for Sustainable Investing, "Sustainable Investing Myth Busters." http://www.morganstanley.com/ideas/sustainable-investing-myth-busters?et_mid=16000&et_mkid=0232d9d436b7a4fad956135be8740563

[4] Tamas Barko, Martijn Cremers, and Luc Renneboog, "Shareholder Engaement on Environmental, Social and Governance Performance," European Corporate Governance Institute (ECGI) – Finance Working Paper No 509-2017. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2977219

[5] Elroy Dimson, Oğuzhan Karakaş, and Xi Li, "Active Ownership," *The Review of Financial Studies*, Volume 28, Issue 12, 1 December 2015. https://doi.org/10.1093/rfs/hhv044

Appendix: Papers Linking ESG to Financial Performance

1. George Serafeim, "Public Sentiment and the Price of Corporate Sustainability," Harvard Business School Working Paper 19-044, Oct. 29, 2018. https://www.hbs.edu/faculty/Publication%20Files/19-044_a9bbfba2-55e1-4540-bda5-8411776a42ae.pdf
    a. "I find that the valuation premium paid for companies with strong sustainability performance has increased over time and that the premium is increasing as a function of positive public sentiment momentum"
2. Dale Griffin, Omrane Guedhami, Kai Li, and Guangli Lu, "National Culture and the Value Implications of Corporate Social Responsibility," Social Science Research Network, Oct. 2018. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3250222
    a. "We examine why corporate social responsibility (CSR) practices vary across countries and firms, and the value implications of such variation. Using Thomson Reuters' ASSET4 database on the CSR practices of 4,279 firms from 49 countries over 2003–2015 and employing a hierarchical linear model, we find that the national cultural dimension of individualism is positively associated with firm-level CSR practices. … Moreover, both between and within countries, we find a positive association between firm-level CSR practices and firm value, with three firm-level channels — cash flow, cash flow variability, and cost of equity — linking CSR practices to firm value."
3. Guido Giese, Linka-Eling Lee, Dimitris Melas, Zoltan Nagy and Laura Nishikawa, "Foundations of ESG Investing Part 4: Integrating ESG into Factor Strategies and Active Portfolios," MSCI Research Insight, June 2018. https://www.msci.com/documents/10199/cc2c2dc9-84be-525f-4225-eb5a9771dad2
    a. "We analyzed close to 1,200 global equity funds, finding that they have shown no significant level of ESG integration during the study period. However, our simulations showed that applying a consistent overlay to fund holdings using ESG ratings and ESG momentum led to an improvement in risk and risk-adjusted return characteristics…"
4. Anthony A. Renshaw, Ph.D., "ESG's Evolving Performance: First, Do No Harm," Axioma, 2018. https://www.savvyinvestor.net/sites/default/files/node/paper/file/ESG%20evolving%20performance%20Axioma.pdf
    a. "We evaluate the investment performance of ESG, paying particular attention to recent performance and highlighting the difference between ESG scores that overlap with traditional risk model factors and those that don't. Our analysis indicates that, in general, increasing exposure to ESG rarely underperforms the market, and often outperforms the market, especially during the last few years."
5. Douglas Beal, Robert Eccles, Gerry Hansell, Rich Lesser, Shalini Unnikrishnan, Wendy Woods, and David Young, "Total Societal Impact: A New Lens for Strategy," Boston Consulting Group, 2018. https://www.bcg.com/en-us/publications/2017/total-societal-impact-new-lens-strategy.aspx
    a. "For individual industries, we looked at the link between performance in specific ESG topics (such as ensuring a responsible environmental footprint or promoting equal opportunity) and market valuation multiples and margins, both contributors to TSR. Our key findings: Nonfinancial performance (as captured by the ESG metrics) was statistically significant in predicting the valuation multiples of companies in all the industries we analyzed. In each industry, investors rewarded the top performers in specific ESG topics with valuation multiples that were 3% to 19% higher, all else being equal, than those of the median performers in those topics. Top performers in certain ESG topics had margins that were up to 12.4 percentage points higher, all else being equal, than those of the median performers in those topics."
6. Crystal Chao, "How Can Firm Characteristics Empower CSR to Enhance Risk Reduction at the Firm Level?" SSRN, 2018. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3169671
    a. "The study results show that there is a statistically significant negative relationship between CSR ratings and systematic risk. The research also reveals that CSR scores and idiosyncratic risk are negatively related. In addition, the impact of CSR on idiosyncratic risk can be enhanced by co-aligning with specific firm characteristics, such as level of profit and firm size."

7. Mike Chen and George Mussali, "Integrated Alpha: The Future of ESG Investing," Panagora, April 17, 2018. http://www.panagora.com/assets/PanAgora-Investment-Insight-April-2018-Integrated-Alpha-The-Future-of-ESG-Investing.pdf
    a. "Systematic integration of ESG factors into benchmarks shows positive results in most periods between 2010 and 2017. … With the newer Integration and Impact approaches, the investment community is beginning to realize that ESG and alpha generation are not mutually exclusive. Our research, in fact, shows that in many cases including ESG conscious firms in a portfolio can be additive as well as providing downside protection. Firms that rank high on ESG metrics have shown an ability to deliver above-market returns."
8. Société Générele, "SRI: Beyond Integration: Five-year record outperformance delivered by our top ESG-rated stocks," 2018.
    a. Top 10% of ESG-rated stocks outperformed Stoxx 600 by 28.2% since 2013.
9. Ali Alshehhi, Haitham Nobanee and Nilesh Khare, "The Impact of Sustainability Practices on Corporate Financial Performance: Literature Trends and Future Potential," Social Science Research Network, March 2018. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3127668
    a. "We used content analysis to examine the literature and establish the current state of research. A total of 132 papers from top-tier journals are shortlisted. We find that 78% of publications report a positive relationship between corporate sustainability and financial performance."
10. Hami Amiraslani, Karl V. Lins, Henri Servales, and Ane Tamayo, "A Matter of Trust? The Bond Market Benefits of Corporate Social Capital During the Financial Crisis," Social Science Research Network, 2017. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3042634
    a. "Using the financial crisis as an exogenous shock to trust, and firms' corporate social responsibility (CSR) activities as a proxy for social capital, we show that high-CSR firms benefited from lower bond spreads in the secondary market during the financial crisis compared to low-CSR firms. These findings are more pronounced for firms that, when in distress, have a greater opportunity to engage in asset substitution or divert cash to shareholders. High-CSR firms were also able to raise more debt capital on the primary market during this period, and those high-CSR firms that raised more debt were able to do so at lower at-issue bond spreads, better initial credit ratings, and for longer maturities."