

September 30, 2020

Jay Clayton
Chair, Securities and Exchange Commission
c/o Brent Fields, Secretary
100 F Street, N E
Washington, DC 20549-0609

Dear Chair Clayton:

On behalf of Impax Asset Management LLC and the Pax World Funds, I am writing to ask the SEC to require public companies to disclose gender and race/ethnicity pay ratios on an annual basis, or in the alternative, to provide guidance to companies regarding voluntary reporting on pay equity to their investors. I wrote a similar letter with my Pax Ellevest colleague Sallie Krawcheckⁱ in 2016 regarding gender pay reporting, and I am now amending that request to include racial and ethnic pay reporting.

We strongly believe that pay equity is a useful and material indicator of well-managed, well-governed companies, and conversely, that companies exhibiting significant pay disparities based on demographics, rather than skill, experience, and qualifications may bear disproportionate risk, and that investors therefore may benefit from having such information.

The United States has required that employees performing substantially equal work be paid equally since 1963, when the Equal Pay Act of 1963 was signed into law. A year later, the Civil Rights Act of 1964 was signed into law, protecting against discrimination in employment based on protected class status, such as age, race or gender; Title VII of the Civil Rights Act prohibits discrimination in pay based on race, color, religion, sex or national origin. These were followed by the passage of the Lilly Ledbetter Fair Pay Act of 2009. However, despite having pay equity statutes in place for more than half a century, the United States still has the fifth highest median male-female pay gap among all 37 high-wage countries surveyed in the International Labor Organization's 2018-2019 wage report.ⁱⁱ Racial pay gaps in the United States are often as large as or larger than the pay gap between women and men. Median weekly earnings for Blacks and African Americans were 79% those of White workers, while median earnings for Hispanic or Latino workers were 77% of Whites.ⁱⁱⁱ The ratios are even worse for Black and Latina women: Black and Latina women earn 63% and 55%, respectively, of what White men earn.^{iv}

We regard gender, racial and ethnic pay inequality as a material risk to investors. We believe that companies that are best able to take advantage of the talents of the entire workforce are better positioned to add value to investment portfolios, while those that discriminate are vulnerable to litigation, regulatory and reputational risk. Research has found that organizations that conduct rigorous pay equity reviews are more successful in building diverse workforces,^v and numerous research studies show that diversity has been correlated with superior financial performance over the long term.^{vi}

For investors, pay discrimination can have significant impacts. In the United States, the EEOC lists 1,973 wage enforcement/litigation actions related to gender, 1,839 related to race, and 261 related to color.^{vii} Pay discrimination lawsuits are usually settled out of court, but many of them, particularly class actions,

can be quite costly, and the time and expense involved in defending such lawsuits can be substantial. More generally, companies that do a poor job of retaining and motivating their workforces can be at a distinct competitive disadvantage. Disclosure, on the other hand, can be helpful. Research has shown that employee satisfaction increases and intent to leave decreases when there is more transparency around pay practices.^{viii}

Careful investors often look for signs of trouble before significant problems are manifest. By the time a class action is certified, for instance, it may be too late for investors to salvage value by selling securities; the damage to the share price from a report of major litigation can be nearly instantaneous. In order for investors to see signs of trouble, however, the data must be publicly available. Pay inequities may also be a sign of other, deeper problems; yet pay ratios by gender, race or ethnicity are not required to be reported by companies in financial filings, and very few companies report on this issue. We believe that wage disparities by demographic groups continue to exist, in part, because of the secrecy that surrounds compensation at many public companies.

As investor interest in diversity has grown, companies are increasingly reporting on executive and board diversity. The SEC has accordingly issued guidance to companies in its amendments to item 407(c) of Regulation S-K, requiring disclosure of whether, and if so how, a nominating committee considers diversity in identifying nominees for director.

Just as concern over board and management diversity has grown, so has concern over the disparity between executive pay and median pay at corporations, which was addressed in the Dodd-Frank Wall Street Reform and Consumer Protection Act, and has now also been implemented in an SEC rule. We note in this regard the discussion of compensation policies and their relation to risk management in Regulation S-K Section 229.402. While neither the pay ratio rule nor Reg S-K specifically addresses demographic pay disparity, the logic behind the disclosure of both is the same: companies that discriminate against any class of employees, or allow large pay disparities to exist among classes of employees, bear increased regulatory, litigation and reputational risk.

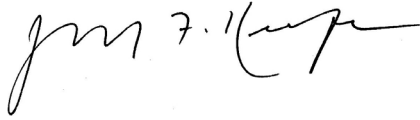
We believe that the materiality of demographic pay ratios clearly falls within the definition of materiality as set forth in the SEC's Staff Accounting Bulletin No. 99: "A matter is 'material' if there is a substantial likelihood that a reasonable person would consider it important." In a competitive global economy, we consider pay equity to be an increasingly important indicator of a company's ability to attract, retain, motivate and develop a first-class workforce, which is critical to business success. Reasonable investors would consider such information important, and therefore it should be disclosed.

Accordingly, we request that the SEC require that companies disclose gender, race and ethnic pay ratios on an annual basis, or in the alternative, provide guidance to companies regarding voluntary reporting of pay equity ratios to their investors. Companies already collect the demographic data that would be needed to report on pay ratios in EEO-1 reporting, thus mitigating any burden associated with additional data collection. We believe that reporting pay ratios by gender, race and ethnicity is a natural next step in providing investors with a more complete picture of how companies are managing human capital issues. Moreover, such disclosure is a critical step if we are to advance pay equity and fairness, which will be good for businesses and good for the overall economy.

Thank you for your consideration. We welcome the opportunity to discuss this issue with you in greater detail. Please feel free to contact me directly, or contact Julie Fox Gorte, Senior Vice President for

Sustainable Investing, Pax World Funds (j.gorte@impaxam.com, 603-501-7353) or Heather Smith, Lead Sustainability Analyst, Pax World Funds (h.smith@impaxam.com, 603-501-7351).

Sincerely,



Joseph F. Keefe
President
Impax Asset Management LLC

ⁱ See <https://www.sec.gov/rules/petitions/2016/petn4-696.pdf>.

ⁱⁱ International Labour Organization, "Global Wage Report 2018-2019: What lies behind gender pay gaps," 2020. https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_650553.pdf

ⁱⁱⁱ US Bureau of Labor Statistics, "Economic News Release: Median usual weekly earnings of full-time wage and salary workers by age, race, Hispanic or Latino ethnicity, and sex, second quarter 2020 averages, not seasonally adjusted," July 17, 2020. <https://www.bls.gov/news.release/wkyeng.t03.htm>

^{iv} National Women's Law Center, "NWLC Resources on Poverty, Income, and Health Insurance in 2019." <https://nwlc.org/resources/nwlc-resources-on-poverty-income-and-health-insurance-in-2019/>

^v Mercer, "Achieving Pay Equity: How Analytics has Evolved to Support True Progress," 02 April 2018. <https://www.mercer.com/our-thinking/career/achieving-pay-equity-how-analytics-has-evolved-to-support-true-progress.html>

^{vi} See Impax Asset Management LLC website for a discussion of studies that illuminate the relationship between diversity and financial performance. <https://impaxam.com/investment-philosophy/sustainable-investing/gender-research/>

^{vii} U.S. Equal Employment Opportunity Commission, "Bases by Issue, FY 2010- FY 2019," <https://www.eeoc.gov/statistics/bases-issue-charges-filed-eeoc-fy-2010-fy-2019>.

^{viii} PayScale, "Transparency is Uncomfortable, But Absolutely Worth It: Some Tips," December 1, 2007. <https://www.payscale.com/compensation-today/2017/12/pay-transparency-uncomfortable-absolutely-worth-tips>