Connection

Fall 2010 | A Newsletter for Sustainable Investors

PAX Pax World Mutual Funds | For Tomorrow®

INSIDE

Market and Economic Update

An Interview with Pax World CIO Chris Brown

An uncertain economic environment and volatile stock and bond markets have made 2010 a challenging year for many investors. Connection *talked with Pax World Chief Investment Officer Chris Brown about the current economic situation, and where he sees investment opportunities in 2011.*

The economic environment in the United States—with high unemployment and low consumer confidence combined with record low interest rates and strong corporate profit reports—may be confusing to many investors. What indicators do you typically look at and what do they tell you?

The mixed economic indicators have been confusing to both average and sophisticated investors. Generally, through our research and analysis, we have seen strong corporate profits and many companies posting upside surprises over the past two quarter—a positive catalyst for long-term stock performance. We believe this will continue for the foreseeable future as companies continue to see the benefits of their strong balance sheets, low borrowing costs, high operating margins and an uptick in capital spending. But the health of the U.S. consumer is obviously a major component of the economic recovery. While job and wage growth has been stagnant, consumers continue to reduce their personal debt and take advantage of low borrowing costs. We believe this will ultimately translate into pent up demand for consumer products. We are

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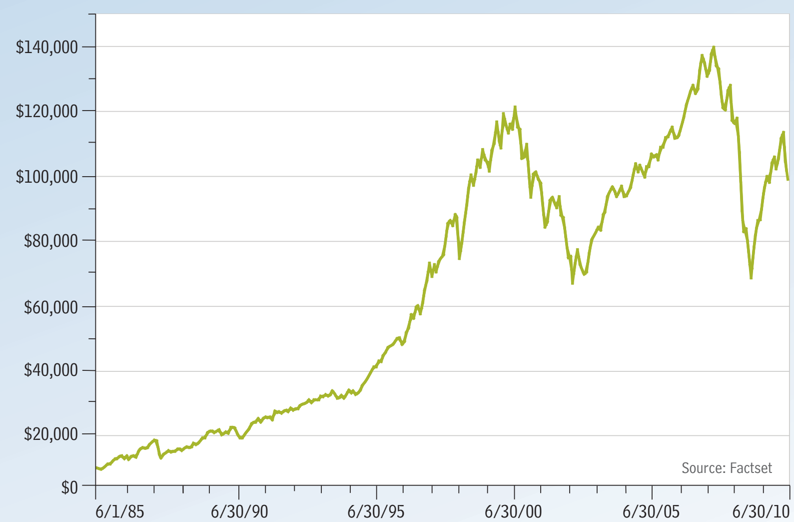
Maintain a Long-term Investment Approach During Volatile Market Periods

The following chart shows that a $10,000 investment in stocks, as represented by the S&P 500 Index, over the past 25 years would have yielded $98,983 despite several periods of market declines.



The S&P 500 Index is the Standard & Poor's composite index of 500 large capitalization stocks, a widely recognized, unmanaged index of common stock prices. Investors cannot invest directly in an index.

Past Performance is not a guarantee of future results.

30 Penhallow Street, Suite 400
Portsmouth, NH 03801

Editor Donna Marsh
Layout Dorset Norby

General Fund Information:
☎ 800.767.1729

Shareholder Account Information:
☎ 800.372.7827

www.paxworld.com

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In Uncertain Markets Like These, Balanced Funds Remain a Solid Choice

Balanced funds, which were initially launched in the 1920's, were among the first mutual funds in the United States to seek preservation of capital by investing in a mix of stocks and bonds. Since then, an array of new products such as asset allocation funds, target date funds and index-based funds have become available to investors. But in today's slow growth environment, frequently accompanied by high levels of market volatility,[1] balanced funds may continue to be a smart choice for long-term investors who understand the value of active fund management.

The Pax World Balanced Fund, managed by Chris Brown, Pax World's Chief Investment Officer, has a long-term investment approach with flexible parameters that enables him to target specific regional or sector growth opportunities within an overall broader market; adjust the Fund's asset allocation mix based on changing market conditions; seek income to boost total returns through fixed income and dividend producing stocks; and pursue both domestic and international opportunities. Mr. Brown has a long-term tenure as manager for the past 12 years. During that time he has maintained his focused approach, investing in reasonably-priced companies with high growth potential that he believes to be well-positioned for long-term capital appreciation.

The Pax World's Balanced Fund seeks to maintain a high-quality approach to securities selection compared to its peers. Its growth-at-a-reasonable-price (GARP) strategy[2] appeals to investors interested in capturing upside potential in a volatile market without overpaying for growth. By focusing on higher quality fixed-income securities, the Fund strives to offer low volatility and risk, important characteristics in today's uncertain market environment.

This strategy can hold particular appeal during slow growth periods like today. In 2002 and 2007, two years marked by moderate (less than 2%) gross domestic product (GDP) growth, the Balanced Fund delivered strong performance compared to its benchmark, the Blended Index.[3] In 2002, when the economy was just beginning to recover after 9/11 and the "technology bust," the Fund outperformed its benchmark. And again in 2007, when the economy was beginning to show signs of weakening preceding the subprime mortgage crisis, the Fund again outperformed its benchmark.[4]

The Pax World Balanced Fund follows a Sustainable Investing approach, combining rigorous financial analysis with equally rigorous environmental, social and governance (ESG) analysis in its investment process. By supplementing traditional financial analysis with equally rigorous ESG analysis, the Fund takes into consideration factors other investment managers often ignore—environmental responsibility, safety management, corporate governance and other issues that can have a material effect on share price performance.

In today's market environment, the Pax World Balanced Fund may be a sound choice for those seeking a fund managed by an investment professional with a long-term track record of identifying high-quality, reasonably-priced companies. For more information on the Pax World Balanced Fund visit www.paxworld.com. ■

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.

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.

[1]Volatility is a statistical measure of the dispersion of returns for a given security or market index.

[2]This is a strategy of the advisor or portfolio manager rather than a strategy of the fund.

[3]The Blended Index is comprised of 60% S&P 500 Index and 40% Barclays Capital U.S. Aggregate Bond Index. The S&P 500 Index is an unmanaged index of large capitalization common stocks. The Barclays Capital Aggregate Bond Index represents securities that are U.S. domestic, taxable and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities and asset-backed securities. Investors cannot invest directly in any index.

International Investing Offers a World of Opportunity

By Ivka Kalus-Bystricky, Pax World International Fund Portfolio Manager

Like many investors, you may be interested in overseas opportunities but unsure if it's the "right time" to incorporate an international fund into your portfolio. Because U.S. equity markets currently comprise less than 50% of the global market, as represented by the FTSE All-World Index[1], you may be missing out on potential diversification and, ultimately, performance benefits.

Did you know that international markets, as represented by the MSCI EAFE (Net) Index, have outperformed U.S. markets, as represented by the S&P 500 Index, in 7 out of the past 10 years, and have earned U.S.-based investors 12.38% total cumulative return over that same time period, outperforming the domestic markets by 21.48% (as of 12/31/09).[2]

During periods of strong international investment performance, investors have historically tended to increase their allocations to international investments. However, when markets turn volatile or when international markets in aggregate are underperforming, similar to what we've seen recently, U.S. investors have a tendency to return home. This tendency to invest domestically is often referred to as "Home Country Bias," and is typically based on investors' comfort level with overseas markets or common misperceptions about the benefits of international investing. Below are a few of the more common misperceptions about international investing and the realities behind them.

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Common myths about international investing...

1 International markets are closely correlated with the U.S., so there are limited or no diversification benefits to investing internationally.

Reality: Investment returns of international markets are indeed broadly correlated. However, there are performance differences at the stock, sector, region and currency level, providing potential diversification benefits. One of the best examples of this is the financial sector, which comprises 25% of international markets compared to 16% of the U.S.[3] Performance of international banks and insurance companies is highly dependent on local regulation, economic conditions and currency movements, and therefore varies widely based on the country where a financial company has its operations. Since the beginning of this year, international financials have lost about 10% in value overall, but the performance varies widely across 20+ countries, from +9% in Norway to -46% in Greece.[3] By taking advantage of this vastly differential performance within just one sector, investors may achieve diversification benefits as well as the option to increase allocation to better performing geographies.

2 The U.S. is still the largest market in the world, so it's a safe haven.

Reality: The U.S.'s share of global markets has shrunk to about 40%, a much smaller share compared to its heyday in 2001, when it represented almost 55% of global markets.[4] Japan may serve as a cautionary example of how market dominance can fade. In 1988 Japan represented 31% of global markets; today it represents just 8%.[5] Market performance ebbs and flows based in part on relative fundamentals, and more robust economic fundamentals currently exist in many countries outside of the United States. In fact, for the period 2008 – 2010, the United States had the highest unemployment rate of the 10 largest developed countries, according to the U.S. Department of Labor.[6]

3 Currencies are too volatile and risky.

Reality: Like regional allocation, currency can provide an additional source of both risk and return. Foreign currencies are not synchronized versus the U.S. dollar, but rather react to changing expectations of economic fundamentals and sovereign credit risk, which vary widely from country to country. Therefore, in a year like 2008, when the dollar was strong overall, the pound declined dramatically, while the Japanese yen appreciated versus the U.S. dollar, so a U.S.-based investor would have gained more by allocating a greater portion of his/her portfolio to the yen and domestically-focused Japanese equities.[7]

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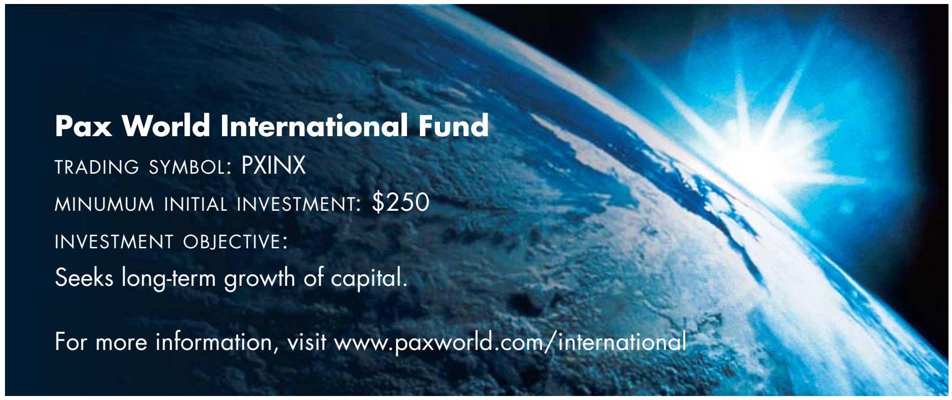
INTERNATIONAL INVESTING CONTINUED FROM PAGE 3

International investments can play a role in a diversified portfolio based on an individual's investment objectives and time frame. And international funds, which provide the advantage of professional portfolio management experienced in navigating overseas markets, can be an appealing option for many investors who are unfamiliar with overseas markets.

The Pax World International Fund is one of very few international funds driven by a Sustainable Investing approach–combining rigorous financial analysis with equally rigorous environmental, social and governance (ESG) analysis. It seeks long-term growth of capital by investing in a portfolio of approximately 40-70 non-U.S. companies that have the potential to weather market cycles and demonstrate continuously improving financial results. ■

For additional information on the Pax World International Fund, visit www.paxworld.com/international



Emerging market and international investments involve risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principals, economic or political instability in other nations or increased volatility and lower trading volume.

Diversification does not eliminate the risk of experiencing investment losses.

Past performance is not aguarantee of future results.

[1]Source: Factset, FTSE All-World Index, data as of July 15, 2010.

[2]Source: Bloomberg, S&P 500 Index, MSCI EAFE, 12/31/99-12/31/09.

[3]Source: Factset, S&P 500 Index, MSCI EAFE, as of July 15, 2010.

[4]Source: Factset, FTSE All-World Index, for the period December 31, 2001 to July 15, 2010.

[5]Source: Bloomberg, as of July 15, 2010.

[6]Source: U.S. Department of Labor, Monthly unemployment rates and employment indexes, 2008-2010, www.bls.gov.

[7]Source: Bloomberg, currency comparison of Japanese yen versus U.S. dollar as of December 31, 2008

The S&P 500 Index is the Standard & Poor's composite index of 500 stocks, a widely recognized, unmanaged index of common stock prices.

The FTSE All World Index Covers 49 different countries and over 2,400 stocks, the FTSE All-World Index captures 90-95% of the investable market capitalization worldwide. The index is divided into Developed, Advanced Emerging and Emerging segments. The modular nature of the series provides maximum breadth of options for structuring portfolios with indexes calculated at regional, national and sector level.

The MSCI EAFE (Europe, Australasia, Far East) Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. As of July 2010 the MSCI EAFE Index consisted of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. Performance for the MSCI EAFE Index is shown "net", which includes dividend reinvestments after deduction of foreign withholding tax.

Investors cannot invest directly in an index.

[4]The Pax World Balanced Fund returned -8.86 and 9.44%, and the Blended Index returned -9.82 and 6.22% for the 12-month periods ended 12/31/02 and 12/31/07, respectively.

[5]Figures include reinvested dividends, capital gains distributions, and changes in principal value.

[6]The Lipper Balanced Fund Index tracks the results of the 30 largest mutual funds in the Lipper Balanced Fund Average, which is a total return performance average of mutual funds tracked by Lipper, Inc. whose primary objective is to conserve principal by maintaining, at all times, a balanced portfolio of both stocks and bonds. The Lipper Balanced Fund Index is not what is typically considered to be an "index" because it tracks the performance of other mutual funds rather than changes in the value of a group of securities, a securities index or some other traditional economic indicator. Investors cannot invest directly in any index.

Balanced Fund Performance as of June 30, 2010

	Cumulative Return (%)		*Average Annual Return (%)*			
RETURNS(%)[5]	3-month	1-year	3-year	5-year	10-year	Since Inception
Pax World Balanced Fund (PAXWX)	**-6.68**	**6.33**	**-7.10**	**-0.06**	**1.39**	**8.17**
Blended Index[3]	-1.79	12.82	-2.73	2.04	1.92	—
Lipper Balanced Funds Index[6]	-2.66	13.33	-3.70	1.98	2.34	—

Performance data quoted represent past performance, which does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For most recent month-end performance information visit www.paxworld.com. Inception date is 8/10/71.

Total annual Balanced Fund operating expenses, gross of any fee waivers or reimbursements, are 0.98% for the Individual Class shares.

also starting to see positive signs for hiring in the technology and financial services industries. Over the short-term, we believe we are likely to see continued mixed economic data for the economy resulting in further volatility for the markets. We feel this will provide opportunities to invest in attractive companies at reasonable prices. Ultimately, we believe the economy will demonstrate sustained economic growth, but at a more muted pace, versus the consensus view of higher gross domestic product forecasts.

How has recent turmoil in world economies, particularly emerging markets, Asia and Europe impacted U.S. investors?

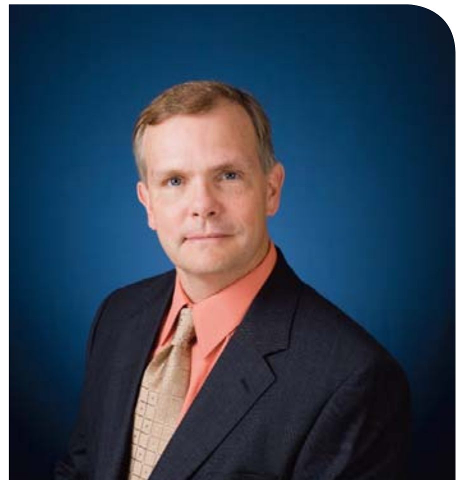
So far, most of the economic turmoil has been contained within Greece, with Spain, Portugal and Ireland also exhibiting some of the same issues, but to a much lesser extent. Due to its small size, the Greek economy has not had a major impact on the rest of the world and especially the U.S. investor, as many U.S. companies have little exposure to its market. Germany and France, two of the largest economies within the European Union, continue to show solid growth and financial discipline which we believe should offset the weakness in some of the smaller economies mentioned above. China and Brazil have become major economic powers, and continue to demonstrate good economic growth which could also help bolster the global economy.

Given the issues you discussed above, what sectors do you think could outperform over the next 6 to 12 month period?

Because we believe the U.S. economic recovery will be led by capital spending, we think that the industrial and technology sectors could offer the best investment opportunities over the next 12 months. Generally, industrial companies have been reporting both strong top and bottom line growth with many companies actually surprising investors with higher earnings than the consensus view. We believe the technology sector will also benefit from increased capital spending as companies continue with technology upgrades to further advance their operating efficiencies. Recent earnings reports have been generally strong, supporting our thesis regarding the sector. Going forward we feel technology earnings could surprise investors on the upside.

The big question at this point for many investors is whether we are headed into a "double dip" recession. What are your thoughts on this?

While we can't rule it out completely,



Chris Brown, Pax World Chief Investment Officer and Portfolio Manager

we believe, at this point, that it is an unlikely scenario. We think low interest rates, generally strong corporate balance sheets, and an increase in corporate capital spending should provide an environment of moderate economic growth. The health of the consumer is paramount in determining whether a "double dip" will come to pass. And at this point, the U.S. consumer is challenged with stagnant job and wage growth along with low housing prices. However, with consumer balance sheets improving and some early signs of hiring in the technology and financial service areas, we think the consumer could ultimately recover along with the economy. ■

Pax World's 2010 Shareholder Engagement and Public Policy Initiatives Achieved Widespread Success

Pax World's 2010 shareholder engagement and public policy initiatives focused mainly on gender equality, corporate governance and the environment and achieved widespread success.

For complete information visit http://www.paxworld.com/newsmedia/news-releases

Mercy Corps Aids Flood Survivors in Pakistan

The worst monsoon-related floods in living memory have deluged Pakistan since late July, triggering more than 1,500 deaths and affecting an estimated one in nine residents.

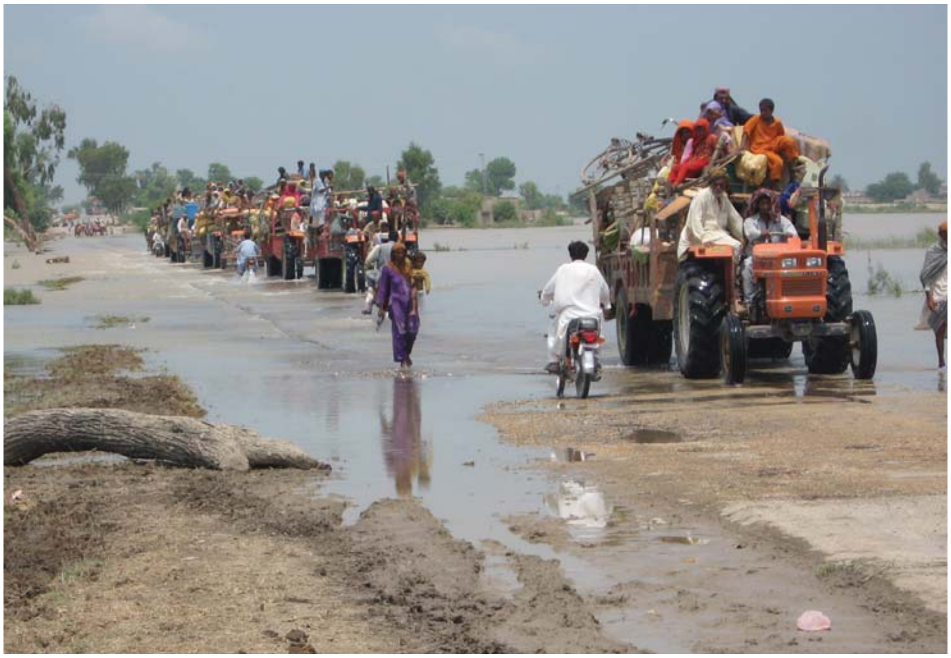


Image taken during a Mercy Corps emergency assessment of flood damage in northern Sindh Province, Aug. 13-15, 2010. Photo by Steve Claborne for Mercy Corps

Mercy Corps, the global relief-and-development organization that Pax World has supported for over 24 years, is on the ground responding to the needs of flood-affected families. As an organization that not only provides immediate relief but also stays after the TV cameras have gone to help people build back better lives, they're looking ahead to create jobs that rebuild roads and infrastructure and assist farmers in restoring farmland and replanting crops.

Particularly hard-hit was the province of Sindh, where, as this issue went to press, Mercy Corps was providing clean water and medical care to tens of thousands of marooned residents. Mercy Corps established two roving medical clinics to treat people suffering from acute diarrhea, skin diseases, respiratory infections and other ailments. The health clinics move every three to four days to reach people in a variety of settings—from established tent camps to spontaneous communities along main roads. More than 40 percent of those treated were children under the age of five.

In Swat Valley, Mercy Corps distributed hundreds of food kits containing rice, lentils, and other staples, and tool kits containing a wheelbarrow, shovel, hammer and other implements to allow people to repair and rebuild homes that have been destroyed by the flood waters.

As immediate, lifesaving needs are met, Mercy Corps is shifting to longer-term recovery challenges. They have plans to operate temporary jobs programs in both the Swat Valley and Sindh Province that will employ 3,600 people to rebuild roads, clear debris and repair irrigation channels and retaining walls. This program will put urgently needed funds in people's pockets while helping entire communities get on the path to recovery.

Hundreds of Pax World shareholders are supporting Mercy Corps' transformative work in 40 countries through the Pax World Global Citizen Program. To learn more and to join, please visit: www.paxworld.com/global-citizen

MercyCorps