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Pax World Expands Sustainable Investing Fund Line-up

Introducing Pax World Value, Small Cap, International, Women's Equity and Global Green Funds

As pioneers in the field, it is truly exciting for all of us at Pax World to witness the mainstream adoption of sustainable investing. Call it the “Green Wave,” “Eco Boom,” or “Sustainability Revolution,” the fact is that the age of sustainable investing is upon us.

Investors are deciding in droves that sustainability is good business — that companies with strong environmental, social, and governance (ESG) practices are simply better long-term investments.

In response to increased demand, we have launched five new funds within the past year at Pax World, complementing our Balanced, Growth, and High Yield Bond Funds. Three of these funds follow core investment strategies focusing on value, small-cap, and international investments. The two additional funds concentrate on themes we believe are of interest to Pax World investors: global environmental innovation and gender equality. Whether you are looking for an individual fund or constructing a diversified sustainable investing portfolio, Pax's expanded line-up offers more options than ever before.

The Pax World Value Fund invests in companies that we believe are undervalued relative to their future

growth prospects — both in relation to the market as a whole and their respective industry groups. Joining a lineup that includes the Pax World Balanced Fund and the Pax World Growth Fund, the Pax World Value Fund provides additional diversification and asset allocation opportunities to our investors. Sujatha Avutu, CFA, senior vice president and portfolio manager, who joined Pax last year from Evergreen Investments in Boston where she managed the Evergreen Equity Income Fund, manages the Fund.

The Pax World Small Cap Fund invests primarily in smaller companies that offer products, services or business strategies where there are clear opportunities for sustainable growth, and that have strong management teams exhibiting a high degree of innovation and motivation to grow their business. Whereas our other equity funds are either large-cap or multi-cap offerings, this Fund will provide Pax World investors the opportunity to participate in the

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Five Simple Tips for Greener Living

Meeting your daily consumption needs while trying to protect the environment and its resources for future generations is a global challenge. But there are many simple yet effective things we can do on a day-to-day basis that can potentially make a big impact in reducing our collective carbon footprint. Consider:

Saving water with a faucet aerator.

Install a new faucet aerator on your bathroom and kitchen sinks to reduce the amount of water you use at home. Low-flow aerators add air to the water coming out of the sink, providing the same amount of water pressure, but using considerably less water. Most local hardware stores carry these for less than \$15.

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Core Holding Options Expand with International Fund

International stock funds have gathered increased investor interest over the past few years, due in part to the falling U.S. dollar and increased economic globalization. Perhaps due to their strong performance — international stock funds have earned 20.83% a year on average for the past five years, compared with a 11.74% return by U.S. large-cap growth funds — many Pax World investors have expressed interest in an international fund option integrating Pax World’s environmental, social, and governance (ESG) criteria that could serve as a core holding.

“My goal is to build a well-diversified portfolio where each position represents a strong sustainable growth theme, while the overall portfolio captures opportunities across multiple geographies and industries.”

— Ivka Kalus-Bystricky, Portfolio Manager

The Pax World International Fund’s objective is to seek long-term growth of capital by investing primarily in large-cap, high-quality companies with sustainable growth prospects outside of the United States. Portfolio Manager Ivka Kalus-Bystricky joined Pax World this year from State Street Global Advisors, where she co-managed the International Growth Opportunities Fund and Global Growth Opportunities Fund. When building the new portfolio at Pax, Ivka and her investment team seek out companies, industries, and geographic regions that exhibit characteristics of sustainable growth that they believe can weather market cycles, and that have the ability to demonstrate consistently improving financial results. She aims to invest in high-level sustainable growth themes from multiple regions and industries, such as the growing wealth of the middle class in emerging markets, the explosive growth in global infrastructure

demand, and the improving economic viability of alternative energy.

For Ivka, equally as important as individual stock picking is her ability to build a portfolio of stocks to cover a broad range of sustainable growth themes, geographies, and industries that work together. Her focus on managing the portfolio as a whole rather than as just a group of stocks is where Ivka feels she has a performance advantage over her peers.

“My goal is to build a well-diversified portfolio where each position represents a strong sustainable growth theme, while the overall portfolio captures opportunities across multiple geographies and industries. I like to maximize the portfolio’s exposure to individual stocks, regions, sectors, and themes where I have the highest level of conviction, while reducing the overall portfolio risk that could result from ignoring certain regions, industries, or currency exposures.”

Ivka believes that having ESG research at the heart of the investment process is what differentiates the Pax World International Fund from its competitors. With the expertise of Pax’s ESG research team, Ivka believes she should be able to identify some great stocks that will deliver on their promise of sustainable outperformance. She also expects that Pax’s rigorous ESG screening process will help her to identify and avoid companies that are more likely to disappoint the market due to unsustainable operating and management practices.

“In a nutshell, my job as manager of the Pax World International Fund is to build a portfolio that covers as many sustainable growth themes as possible, avoids the blow-ups, and also avoids unintended gaps or overly-concentrated exposure in the portfolio. I believe this approach will deliver consistent and sustained outperformance relative to the broader international market.”



Ivka Kalus-Bystricky

**Portfolio Manager,
Pax World International Fund**

Ivka Kalus-Bystricky joined Pax World in March from State Street Global Advisors, where as portfolio manager she co-managed the International Growth Opportunities Fund and Global Growth Opportunities Fund. She previously managed several international and global portfolios at Baring Asset Management. Ivka began her investment career as an analyst at Putnam Investments and Independence Investments, covering mainly international sectors.

Managing the Pax World International Fund is in her words, “a fantastic opportunity to build an international portfolio from scratch around Pax World’s sustainability focus,” which she feels fits well with her life philosophy.

During her undergraduate studies at Harvard and graduate studies at the Fletcher School of Tufts University, Ivka focused on biology, ecology, and natural resource economics. Between degrees, Ivka worked with the indigenous Mayans in Mexico on a sustainable agroforestry project. She wrote her Master’s thesis on the negative impact of Czechoslovakia’s communist era environmental policy and helped establish the Environmental Forum at the Fletcher School. Her subsequent MBA at INSEAD and her management consulting and investment management careers took her temporarily away from her ESG interests, but now Ivka feels her career has come full circle. “It has taken almost two decades for these issues that are so close to my heart to finally enter the broader investment lexicon, and I am so thrilled to be able to apply my past ESG experience as part of the Pax World investment team.”

Small Cap Fund Offers Access to Innovative, Dynamic Companies

Recent stock market volatility and an uncertain economic environment have made large-cap stocks, which have performed well in the past year due to their ability to withstand economic downturns and volatile markets, popular with many investors. But over some longer time periods, including the past five- and ten-year periods, small-caps have outperformed their larger counterparts.¹ That's why many investors choose to include a small-cap fund in their diversified portfolios. Pax World is proud to help its shareholders meet that need with the recent addition of the Pax World Small Cap Fund to its equity fund line-up.

The Pax World Small Cap Fund's primary objective is to seek long-term growth of capital through diversified holdings of innovative small companies that are uniquely positioned to experience strong long-term growth. The Fund invests in companies with capitalizations within the Russell 2000 Index, a small-cap index of companies valued roughly between \$300 million and \$3 billion. The Pax World Small Cap Fund is managed by Pax World Vice President and Portfolio Manager Nathan Moser, CFA.

Moser and his team select investments primarily through the use of fundamental analysis which individually examines each company's revenue, expenses, assets, and liabilities. Moser manages a rather concentrated portfolio of between 50 and 60 companies, which he believes provides adequate diversification while allowing strong performing stocks to have a meaningful impact on the Fund's overall performance. When determining a target price for purchasing a stock, his investment team looks closely at the company's growth outlook and the quality of its business and management. Moser analyzes the stock's history and takes into consideration its peers and any specific related issues which may impact its price.

"My investment style or philosophy focuses on buying high-quality companies for reasonable prices," explains Moser. "I look for businesses with strong management teams, high levels of profitability, and improving outlooks."

"It's important to ask executives the tough questions many investors won't ask in public settings. I find it valuable to hear executives discuss their business strategy, risk factors, and competitors. Some of my best ideas have come about from hearing a management team discuss an up-and-coming competitor."

— Nathan Moser, CFA, Portfolio Manager

When possible, Moser meets with the management teams of the companies he considers for investment. "It's important to ask executives the tough questions many investors won't ask in public settings," says Moser. "I find it valuable to hear executives discuss their business strategy, risk factors, and competitors. Some of my best ideas have come about from hearing a management team discuss an up-and-coming competitor."

Recent market volatility resulting from the impact of the sub-prime lending fallout on the overall economy has given Moser what he believes are valuable investment opportunities while launching the Fund. "As investors look for relative safe havens, they've sold small-cap stocks and rotated into larger-cap names. This has created numerous opportunities because while some companies deserve to trade at depressed valuations due to deteriorating fundamentals, many do not. I believe this is an excellent time to be launching a small-cap fund and view this as a great stock picker's market."



Nathan Moser, CFA
Portfolio Manager
Pax World Small Cap Fund

When Nathan Moser joined Pax World as portfolio manager of the Small Cap Fund this year, he was continuing a career track that began more than two decades ago. Growing up as the son of a stock broker, Nathan read Wall Street research and the financial press and actively invested in the stock market. "I look back on those years as experience-building, as I received hands-on training and lived through several market cycles."

After graduating from Babson College, Nathan started his career as a healthcare analyst at John Hancock. He then joined Citizens Funds, an SRI fund family in Portsmouth, NH, where he was promoted to vice president and co-portfolio manager of the Citizens Small Cap Core Growth Fund. What attracted him to Pax World? "Working with a world class investment team and for a company that is an industry leader in sustainable investing."

Outside of work, Nathan enjoys spending time with his wife and two young girls. He also enjoys traveling, golfing, sea kayaking, skiing and enjoying the seacoast area of New Hampshire where he resides.

¹Perfomanced based on the 5- and 10-year annual returns of the Russell 1000 Index of large-cap stocks versus the Russell 2000 Index of small-cap stocks. Returns for the 5-year period ended 12/31/07 were 13.43% and 16.25%, respectively, and for the 10-year period were 6.20% and 7.08%, respectively. Past performance does not guarantee future results.

Buying locally grown foods from small, sustainable farms.

Check out local farmer's markets and dairy co-ops in your area. In addition to offering healthier options that are often pesticide-free, you will be supporting local farmers. Buy Fresh Buy Local chapters are popping up in every community across the country. Check to see if there's a chapter near you at www.foodroutes.org. Sustainable Table is an organization that was created to support agricultural sustainability through consumer and community education. Visit them at www.sustainabletable.org.

Recycling your grocery bags or using cloth grocery bags.

According to Bill Avant, Tennessee State Park's GIS Director, about 40 billion grocery bags are used each year in the United States. Thirty billion are plastic, and ten billion are paper. In 1999, 14 million trees were cut down to produce paper bags. Plastic bags are made from high-density polyethylene which is made from petroleum, a non-renewable resource.



Using compact fluorescent bulbs.

Compact fluorescent bulbs (CFLs) use four times less energy than incandescent bulbs. Although typically more expensive than incandescent light bulbs (\$2.00 vs. \$0.50), the switch can save you up to 30 percent on your energy bill. That's because CFLs use about 75 percent less energy, according to the U.S. Environmental Protection Agency's ENERGY STAR program.

Cutting your showers by two minutes.

According to Eartheasy.com, a four-minute shower uses approximately 20 to 40 gallons of water. Shortening your shower by two minutes can save 10 gallons of water.

Invest Today!

It's Easy to Purchase the New Pax World Mutual Funds

Purchase shares of the five new Pax World funds over the phone, via the Internet, or through the mail using the investment slip on the back of your quarterly account statement.

Online or Over the Telephone

If you have registered for telephone or online purchases in your Pax World accounts, simply Login to *Account Access* from www.paxworld.com or call Shareholder Services at 800.372.7827 and speak with a representative.

Through the Mail

Send us a check along with the investment slip on the back of your quarterly account statement using the included pre-paid mailing envelope.

Market with Global Green Fund

flow, cost of capital, and risk in an attempt to identify the intrinsic value of a stock.

Impax's extensive experience with the environmental sector and its regulatory system give it a unique position in this investment arena. Understanding the regulatory issues of complex environmental technologies, keeping up with changes in the rapidly growing market, comparing opportunities around the world, and finding valuation discrepancies are some of the many challenges of managing the Global Green Fund.

"We are pleased to partner with Impax in the management of the Global Green Fund," said Pax President and CEO Joe Keefe. "The Impax investment team has been working together for almost a decade, which is highly unusual in this sector, and has the depth of experience

necessary to manage the Global Green Fund. In addition, they have a proven track record with some of the most prominent fund managers in the world."

Traditionally, growth in environmental markets has been dominated by small companies. However, with the rise in climate change governmental policies and the falling costs of technology, many mid- and large-sized companies are coming into the environmental markets. This increase of companies in the market and the broad investment scope of the Pax World Global Green Fund will enable the Fund to leverage opportunities across a wide range of capitalizations.

A Leader In the Global Environmental Investing Market

Impax Asset Management Ltd, sub-advisor of the Pax World Global Green Fund, is a London-based asset management firm investing in companies that develop products and services which promote the efficient and environmentally-sensitive delivery of energy, water, and waste services. Today Impax manages more than \$2 billion in assets for institutional and private investors across a broad range of listed and private equity funds in the environmental sector. Pax World believes that the firm's 14-year track record of identifying compelling environmental investment opportunities has made it one of the premier "green" investment firms in the world. For more information on Impax visit www.impax.co.uk.

growth of smaller, entrepreneurial companies. The Fund is managed by Nathan Moser, CFA, who joined us in January from Citizens Funds, where he served as co-manager of the Citizens Small Cap Core Growth Fund.

The Pax World International Fund invests primarily in foreign stocks, allowing Pax World shareholders to further diversify their holdings while taking advantage of growing economies and well-managed companies in different parts of the world. Ivka Kalus-Bystricky, who joined Pax in February from State Street Global Advisers in Boston, will manage the Fund. At State Street, Ivka was a senior international portfolio manager responsible for co-managing approximately \$1 billion in assets across various international strategies.

The Pax World Women's Equity Fund is a multi-cap equity fund that seeks to invest in companies that promote gender equity and women's advancement. The Fund joined the Pax World family after our investment adviser, Pax World Management Corp.,

acquired the assets of FEMMX Financial Company in October 2007. The Fund focuses on companies that promote gender equity through internal policies and programs, transparency, and accountability. Sadly, the visionary founder of the Women's Equity Fund, Linda Pei, passed away less than two months after the merger of this Fund into Pax World. We are determined to carry out Linda's vision and honor her legacy as we bring the Fund to a wider audience of investors who seek to promote gender equity and women's advancement by investing in companies that invest in women.

The Pax World Global Green Fund invests in companies whose businesses and technologies focus on goods and services that mitigate the environmental impacts of commerce, including such areas as alternative energy and energy efficiency; pollution prevention and control; and waste technology and resource management. The Fund provides Pax World investors the opportunity to invest directly in alternative energy, clean technology, and the fast-

growing environmental marketplace. The Fund is being sub-advised by Impax Asset Management Ltd in London, UK.

With unprecedented investor interest in Sustainable Investing, it is truly an exciting time for Pax World. We believe that our expanded product offerings, managed by a seasoned and diverse portfolio team, allow us to better serve our shareholders as we continue to invest for tomorrow.

The Pax World Mutual Fund Family now includes:

- Pax World Balanced Fund
- Pax World Growth Fund
- Pax World Value Fund
- Pax World International Fund
- Pax World Small Cap Fund
- Pax World High Yield Bond Fund
- Pax World Global Green Fund
- Pax World Women's Equity Fund

Learn more about all of the Pax World funds online at www.paxworld.com.



Tap Into Fast-Growing Environmental Investing

Unprecedented innovation in the development of technologies that address environmental issues such as global warming, depletion of natural resources, and renewable energy have triggered explosive growth in the green investment sector. Pax World is proud to offer our shareholders access to this fast-growing segment of the investment market with the launch of the Pax World Global Green Fund.

The Pax World Global Green Fund is a multi-cap fund investing in growth and value companies that are leaders in the development of products and services that address some of the world's most critical environmental issues. The Fund seeks out well-positioned companies in cutting edge industries such as alternative energy and energy efficiency; pollution prevention and control; and waste technology and resource

management. The portfolio also includes companies whose goods and services help organizations improve their environmental performance.

London-based sub-advisor Impax Asset Management Ltd, a world leader in environmental asset management, was selected by Pax World after an extensive search for a premier asset manager specializing in environmental asset management. Impax Chairman Ian Simm leads the management of the Pax World Global Green Fund, which was launched in March (see related sidebar).

The Global Green Fund investment team at Impax applies a bottom-up, research-intensive investment process that helps them identify lesser-known, under-valued companies. They examine the company's expected earnings, cash

Markets Making You Nervous?

Keep Your Eye on the Future

Stock market volatility and an uncertain economic environment are at the forefront of most investors' minds today. It's easy to get caught up in the hype, especially if you're the type of person who watches your accounts move with the markets. However, experienced investors generally believe that the best strategy for these changing times is to maintain a long-term perspective.

Evaluate your financial plan.

When selecting investments for your portfolio, you likely based your decisions on your personal situation, which includes anticipated life events such as a wedding, the purchase of a new home, or retirement. Take this opportunity to evaluate that plan and make sure your investments are still in line with your current goals. You'll feel better knowing you are taking control of your future despite what is happening in the markets.

Diversify your portfolio. Managing risk through diversification is one way investors adapt to changing markets. Historically, and over the long run, diversifying your portfolio may help soften market turbulence because when one asset class falls others may rise. By spreading your assets among asset classes you may help reduce the overall impact of short-term market volatility.

Look to the Future. Keep in mind that market volatility is typically short-lived. In fact, despite many market dips, the S&P 500 Index has returned 11.74% a year on average for the past 20 years. So stay calm during market ups and downs by re-evaluating your portfolio regularly, making adjustments when necessary, and keeping your eye on the future.

Please keep in mind, that like other investment strategies diversification cannot assure a profit or protect you against a loss in a declining market. Please consult your investment advisor for information specific to your situation. Past performance is no guarantee of future results. The S&P 500 Index is an unmanaged index of large capitalization common stocks.

Shareholder Corner

Now Offering Consolidated Shareholder Statements

In response to customer demand for consolidated statement reporting and in our ongoing effort to reduce paper consumption at Pax World, we are consolidating your quarterly statements. Starting with this mailing, your Pax World quarterly statements will contain all accounts registered under the same primary Tax ID Number and address, (including all nine digits of your zip code). Headings within each section of your new statement will list the fund name, account number, and either the type of account, (i.e. IRA or Individual) or the account registration.¹

¹If you prefer to receive separate statements for each account, or if you received separate statements that you believe should have been combined, please call a Pax World shareholder service representative at 800.372.7827. Pax World transaction confirmations will continue to be printed by account, but will be mailed together.

Sign-up for E-Delivery

Many customers currently take advantage of electronic delivery of quarterly statements, prospectuses, annual and semi-annual reports, and proxy materials. Interested? Simply go to www.paxworld.com and login to Account Access, choose *E-Delivery* from the *Email/Account Admin* menu at the top, and follow the on-screen instructions. As Pax World shareholder communications become available, we will send you e-mail notification containing a link directing you to the Pax World web site, where you can view or download the documents.



New Yorker Cartoon by Mick Stevens



Important Disclosures Please Read

Before investing in a Pax World mutual fund, you should carefully consider its investment objectives, risks, and charges and expenses. For this and other important information, please obtain a fund prospectus by calling 800.767.1729 or visiting www.paxworld.com. Please read the prospectus carefully before investing or sending money.

The principal risks of investing in the Pax World mutual funds include (i) price volatility, (ii) interest rate risk, (iii) risks associated with non-U.S. security investments, (iv) leverage risk, (v) sustainable investing risks, (vi) management risk, and, in general, (vii) the risk of losing money by investing in the funds. Pax World Funds are distributed by PFPC Distributors, member, FINRA, except the Money Market Fund, which is distributed by Reich & Tang Distributors, Inc., member, FINRA. (There is no relationship or affiliation between these two distributors.)

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