

## INSIDE

PAX WORLD GROWTH FUND

GLOBAL WOMEN'S EQUALITY FUND SEEKS LEADERS IN PROMOTING GENDER EQUALITY

THE BEST CLUE - ADVANCING GENDER EMPOWERMENT AT PAX WORLD

SHAREHOLDER CORNER

WOMEN THRIVE WORLDWIDE JOINS GLOBAL CITIZEN PROGRAM

## Pax World Launches ESG Shares®—Bringing Sustainable Investing To The ETF Market

Exchange Traded Funds (ETFs) have gained in popularity in recent years with investors interested in benefits such as real-time pricing, transparency, often lower expense ratios and tax advantages.<sup>1</sup> While there are more than 900 ETFs on the market today,<sup>2</sup> Pax World recently announced the launch of ESG Shares®, the first family of ETFs that will be devoted exclusively to a sustainable investing approach.

Whether it's investing in clean and efficient energy sources, managing resources more wisely, promoting higher standards of corporate social responsibility or simply focusing on the long-term rather than the short-term, companies everywhere are moving rapidly in the direction of sustainability. That's why we believe investing in indexes that track companies that integrate environmental, social and governance (ESG) factors into their business models is not only right for our times,

but a smarter way to invest. ESG Shares® uniquely provide investors the opportunity to capture the potential investment returns associated with this global shift to a sustainable economy.

You can buy ESG Shares® just the way you would a stock—through your full-service or discount brokerage account. To learn more about ESG Shares®, visit [www.esgshares.com](http://www.esgshares.com) or call 888.729.3863.

### ESG Shares® North America Sustainability Index ETF (NASI)

The ESG Shares® North America Sustainability Index ETF (NASI) seeks to track the performance of the FTSE KLD North America Sustainability Index, a broadly diversified, sector-neutral index of American and Canadian companies with superior ESG performance as rated by KLD Research & Analytics, Inc.<sup>3</sup>

### ESG Shares® Europe Asia Pacific Sustainability Index ETF (EAPS)

The ESG Shares® Europe Asia Pacific Sustainability Index ETF (EAPS) seeks to track the performance of the FTSE KLD Europe Asia Pacific Sustainability Index, a broadly diversified, sector-neutral index of companies in Europe and the Asia-Pacific with superior ESG performance as rated by KLD Research & Analytics, Inc.<sup>3</sup> **Not yet available as of 7/1/2010.**

### ESG Shares® FTSE Environmental Technologies (ET50) Index ETF (ETFY)

ESG Shares® FTSE Environmental Technologies (ET50) Index ETF (ETFY) seeks to track the performance of the FTSE ET50 Index, comprised of the 50 largest pure-play<sup>4</sup> environmental companies globally by full market capitalization. The companies in the index have a primary business focus in the areas of alternative energy and energy efficiency, water technologies and pollution control and waste technologies and resource management. **Not yet available as of 7/1/2010.**

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*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. Investing in non-diversified funds generally will be more volatile and loss of principal could be greater than investing in more diversified funds. Emerging market and international investments involve risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles, economic or political instability in other nations or increased volatility and lower trading volume. ESG Shares' sustainable investing policies may inhibit the funds' ability to participate in certain attractive investment opportunities that otherwise would be consistent with their investment objectives and other principal investment strategies.*

<sup>1</sup>Portfolio holdings are disclosed daily at [www.esgshares.com](http://www.esgshares.com). Ordinary brokerage commissions apply. ESG Shares ETFs are not managed with an objective to avoid capital gains distributions.

<sup>2</sup>Source: Morningstar 12/31/2009

<sup>3</sup>Companies are rated in seven major qualitative issue areas: Environment, Community, Corporate Governance, Diversity, Employee Relations, Human Rights and Product Quality and Safety. Analysts assign Strengths and Concerns associated with these issues, providing a social and environmental profile of companies.

<sup>4</sup>"Pure-play" refers to companies that have a core business in the development and deployment of environmental and related technologies as determined by the index provider.



# Global Women’s Equality Fund Seeks Leaders in Promoting Gender Equality

*On May 1, 2010, the name and investment strategy of the Pax World Women’s Equity Fund changed to reflect the Fund’s sharpened gender focus. Read on to learn more from Pax World President and CEO Joe Keefe about the recently re-launched Pax World Global Women’s Equality Fund.*

### **How have the Fund's investment parameters changed and what was the rationale for the change?**

The Fund is now a global fund, meaning that at least 40% of its assets will ordinarily be invested in foreign companies. In addition, we have sharpened the Fund’s gender focus so that, instead of simply investing in companies that meet certain baseline criteria on women’s issues, the Fund will seek to invest in companies that are global leaders in promoting gender equality and women’s empowerment. We believe this Fund can demonstrate that investing in companies that invest in women is a smart investment strategy—that empowering women and promoting gender equality is good for a company’s bottom line and good for investors.

### **Why make the change now?**

Because we believe we are at a tipping point. Eliminating gender inequality and empowering women are finally being recognized, on a global basis, as urgent moral and economic imperatives. We believe women’s equality must become an investment concept—a key driver of business success, economic growth and investment returns. In our view, companies that integrate gender diversity and women’s empowerment into their business models will be more successful than their less enlightened competitors. We want to invest in those companies, and we want

our shareholders to benefit from their success.

### **Why has the Fund become a global fund?**

We believe that gender inequality is perhaps the number one impediment to sustainable development around the globe, and that unleashing women’s economic capacity is probably the single most important key to eliminating poverty and promoting sustainable development worldwide. This is a global issue, and we want to encourage companies around the world to take greater steps to promote women’s equality and empowerment.

So, it makes sense for this to be a global fund.

### **Why did you change the name from "equity" to "equality"?**

The word, “equity,” has several meanings, referring to stocks, to the notion of ownership, and of course to fairness or justice. We were concerned that there might be some confusion about its meaning in this context, and we wanted to clarify the Fund’s focus and mission. So, because the Fund seeks to invest in companies around the globe that promote women’s equality in the workplace and beyond, we think the new name—the Global Women’s Equality Fund—better captures that focus and mission.

### **Why should someone invest in this Fund?**

We believe that investing in women

*CONTINUED ON PAGE 4*



### **Sujatha Avutu, CFA, Portfolio Manager Global Women’s Equality Fund**

Sujatha Avutu, CFA. Ms. Avutu has over 15 years of investment experience. She has been responsible for the management of the Pax World Women’s Equity Fund, now the Global Women’s Equality Fund, since October 29, 2007. Prior to joining Pax, Ms. Avutu spent over eight years at Evergreen Investments, where she was Managing

Director and Lead Portfolio Manager for Evergreen Equity Income Fund. Ms. Avutu received a Bachelor of Science from the University of Dayton with a concentration in Finance, and a Master of Business Administration with concentrations in Finance and Management Information Systems from Miami University. She is a member of the Boston Security Analyst Society and the Boston Bank Analyst Society.

*CFA is a trademark owned by CFA Institute.*

# Pax World Growth Fund Manager Takes Thematic Approach to Investing

An interview with Pax World Co-Portfolio Manager Tony Trzcinka



*Pax World Growth Fund Co-Portfolio Manager Tony Trzcinka, CFA, has a thematic approach to growth investing, with*

*an eye on technology stocks, emerging markets and turnaround situations.*

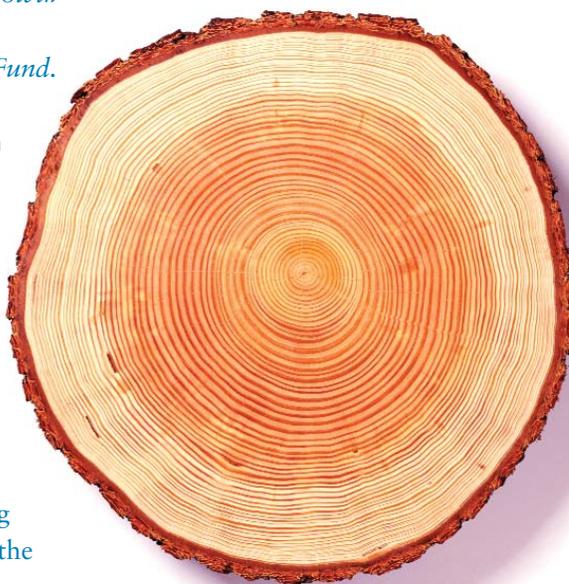
*Connection talked with Tony about the opportunities and challenges of growth investing today and how he co-manages the Pax World Growth Fund.*

## **What are your views on growth oriented investing in today's market?**

I believe the economy is starting to show signs of improvement. And while it is likely to be a slow recovery, I believe it is positive news for Pax World Growth Fund investors who could benefit from both short-term cyclical and long term secular advantages that the Fund aims to provide.

Information technology, as an example, is one of the largest sectors in the Fund, representing 30.1%\* of the Pax World Growth Fund and 31.5%\* of the benchmark, the Russell 3000 Growth Index<sup>1</sup>. From a cyclical point of view, there has been a vast underinvestment in technology. As the economy improves, I believe that investment in technology will accelerate above historical rates. From a secular perspective, I believe a few themes—cloud computing, virtualization and data centers—will likely drive certain segments of the technology sector

higher. We feel that the market is at times undervaluing these short-term and long-term benefits. There are a number of Growth Fund companies such as EMC (1.4%\*), Riverbed Technology (1.0%\*), Netapp Inc. (1.5%\*), Brocade Communications (1.0%\*), Citrix Systems (1.1%\*) and Digital Reality Trust, Inc. (1.2%\*), which I believe should benefit from this trend.



## **How does your investment process differentiate the Fund from others on the market today?**

I think our fund's focus on long-term growth, rather than chasing the latest trends and fashions, is always a good strategy for long-term investors, but particularly in volatile markets such as these. Rigorous fundamental analysis is a key part of our investment process. We typically visit 50-75 companies a year, which gives us the opportunity to talk with management face-to-face. We seek attractively valued companies that

have demonstrated growth in earnings and sales, high returns on equity and assets. We're looking for companies with a unique market niche, a strong new product profile or superior management. Companies with material growth drivers that we believe will positively impact earnings, such as turnaround situations, brand dominance or cyclical businesses, are particularly attractive.

Our detailed risk control process includes diversification by security and sector and attention to risk metrics such as downside capture<sup>2</sup>, standard deviation<sup>3</sup> and Sharpe ratio<sup>4</sup>. These and other risk controls are important in helping us reduce our downside exposure while maximizing overall return potential, which can be especially important during uncertain markets like these.

Of course, the inclusion of ESG criteria in our investment process results in an increased level of scrutiny that we believe helps us identify better-managed companies, and construct portfolios with better long-term investment prospects. As a manager of the Growth Fund, I believe our integrated approach helps us mitigate risk and potential blows to a company's balance sheet and income statement by highlighting potential problems long before they become issues.

## **What are some of the challenges growth investors face in the current market environment?**

Growth investors usually face certain inherent risks resulting from the fact that they often have to attach a higher

CONTINUED ON PAGE 5

is a smart business strategy and good for investors—that's what the Global Women's Equality Fund seeks to demonstrate. We think holding back half of the world's population through unequal educational and job opportunities, unequal wages, let alone violence and oppression, is not only morally reprehensible, it's dumb economics. We believe that businesses that ignore what women can bring to

the table are handicapping themselves and will eventually fall behind in the emerging global economy. Conversely, companies that invest in and empower women will be advantaged, and be better long-term investments. The Pax World Global Women's Equality Fund seeks to invest in these leaders, and to harvest the potential investment returns associated with their success.

For additional information on the Pax World Global Women's Equality Fund, visit [www.paxworld.com](http://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.*

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

## The Best Clue: Advancing Gender Empowerment at Pax World

by Julie Gorte, Ph.D., Senior Vice President for Sustainable Investing

*“...the best clue to a nation's growth and development potential is the status and role of women.”* — David Landes<sup>1</sup>

At Pax World, we believe the status and role of women is also an excellent clue to a *company's* growth potential. Good management is one of the most sought-after qualities in investment markets, and also one of the most elusive. Well-managed companies are those that, by definition, are run so as to prosper in good markets and protect value in bear markets, and represent a durable source of long-term value to their investors, as well as to other stakeholders (employees, customers, communities, vendors, etc.). There is no single way to identify good management. If there were, the world's financial markets would likely be dramatically different than they are now—far less volatile and much more boring. Many investors build portfolios by developing unique ways to identify good management. There is no set of common indicators that all agree on but gender is quite often a robust indicator.

Pax World recently completed a literature review of studies that examine the role of gender empowerment in financial performance, and found that, with few exceptions, gender empowerment has been shown to have a positive and significant association with increased financial value. The most notable contributions are made by having women in executive management and on boards of directors. Recent literature also shows that a greater proportion of women in senior management is positively associated with better earnings quality, a measure that investors particularly value.<sup>2</sup> Some of the largest asset owners on the planet agree. The California State Teachers' Retirement System (CalSTRS) recently launched a project to establish a database of independent director candidates for companies' consideration, citing the “demonstrated economic value from having a diverse board of directors” as a strong

motivation for the initiative.<sup>3</sup> CalSTRS' CEO Jack Ehnes states that board diversity is a core priority, and quotes a 2007 Catalyst study, saying “...the magic number in that study is three female board members.”<sup>4</sup>

### **Gender Equality at Pax World**

Gender equality is a core part of the environmental, social and governance (ESG) research that we perform and we make gender equality a core part of our shareowner advocacy. The Global Women's Equality Fund is the only mutual fund in America that seeks to invest in companies around the globe that are leaders in promoting gender equality in the workplace and beyond. In selecting investments, the Global Women's Equality Fund seeks companies that are leaders in promoting gender equality and women's advancement through internal policies and programs, transparency regarding the effectiveness of those

valuation and pay more for a company that is showing signs of potential growth. Given the higher valuation, these stocks may exhibit more volatility than other strategies. At Pax, we are aware of this and focus specifically on the dedicated risk control measures mentioned previously. During uncertain market environments such as these, it is particularly important for growth investors to resist the temptation to

react to market movements, stay the course—and remain focused on their long-term investment goals. ■

**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.**

<sup>\*</sup>Holdings as of 4/30/2010. Holdings are subject to change.

<sup>1</sup>The Russell 3000 Growth Index measures the

performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. Price-to-book is a ratio used to compare a stock's market value to its book value. One cannot invest directly in an index.

<sup>2</sup>The Downside Capture Ratio is a measure of the Investment's compound return when the Benchmark was down divided by the Benchmark's compound return. The smaller the value, the better.

<sup>3</sup>Standard Deviation measures a portfolio's variation around its mean performance over time. Higher figures indicate greater volatility.

<sup>4</sup>Sharpe Ratio determines a risk-adjusted return using standard deviation; a high sharpe ratio indicates greater return per unit of risk and demonstrates if performance was based on smart investments or on excess risk.

policies and programs and accountability among employees to assure implementation and observance of those policies and programs. In particular, the Fund seeks to invest in companies that embrace or aspire to embrace the best practices embodied in the *Women's Empowerment Principles*, a joint initiative of the United Nations Development Fund for Women (UNIFEM) and the United Nations Global Compact (UNGC).

The Co-Operative Asset Management company in the United Kingdom, is leading an engagement of signatories of the United Nations Principles for Responsible Investment (UNPRI) focusing on gender equality in corporate leadership. The goal of the engagement is to encourage the representation of women on boards of directors and in senior management and to promote greater disclosure by companies on the topic of gender equality. The UNPRI signatories participating in the engagement come from six countries in North and South America and Europe.

Statement of Support for the newly launched *Women's Empowerment Principles*.

### Critical Time for Women's Equality

Gender equality is not, if it ever was, a “nice to have” characteristic in corporate management. It is a key indicator of good management, a quality that all active investment managers seek. It is a cornerstone of good labor-management relations and high employee morale, a key to good community relations, and a sign that corporate management is committed to using all the talent available to it. All of those qualities make it a powerful investment tool. ■

We also eat our own cooking. Three of our six in-house portfolio managers are women, including the Global Women's Equality Fund Manager Sujatha Avutu, CFA. Three of six senior executives who sit on the senior management committee with Pax World CEO Joe Keefe are women, as are half of our sales force. We have established the Pax World Women's Advisory Council, comprised of nationally-known leaders and experts on women's issues, which assists Pax World in its efforts to advance women and gender equality through the Pax World Global Women's Equality Fund. Pax World's CEO, Joe Keefe, recently sent a CEO



“We make gender equality a core part of the environmental, social and governance (ESG) research that we perform and we make gender equality a core part of our shareowner advocacy.”

In our proxy voting, Pax withholds votes from, or votes against, every slate of company directors that includes no women, and follows up with a letter to each of those companies explaining the importance of board diversity and why we did not vote for their board slates. Pax World, together with Calvert and

<sup>1</sup>Landes, David, *The Wealth and Poverty of Nations: Why Some are So Rich and Some So Poor*. New York: W. W. Norton & Company Inc., 1998.

<sup>2</sup>V. Krishnan and Linda M. Parsons, “Getting to the Bottom Line: An Exploration of Gender and Earnings Quality,” George Mason University, January 2006. [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=899363](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=899363).

<sup>3</sup>Francis H. Byrd, ed., “The Altman Interview – Anne Sheehan, Director of Corporate Governance, California State Teachers' Retirement System (CalSTRS),” *The Altman Group Governance & Proxy Review*, Friday, May 14, 2010.

<sup>4</sup>Ed Mendel, “CalSTRS: more women on corporate boards,” *Calpensions*, posted at <http://calpensions.com/2009/02/12/calstrs-more-women-on-corporate-boards/>.

# Shareholder Corner

New Relaxed Rules Allow Investors to Take Advantage of Roth IRAs

Effective January 2010, Congress relaxed the rules regarding Traditional IRA to Roth IRA conversions, eliminating income limits for individuals. Previously, individuals were required to meet modified adjusted gross income (MAGI) limits for the conversion of an existing Traditional IRA to a Roth IRA. Such limits had prevented many people from taking advantage of the savings power of a Roth IRA.

Now there are no income limits for converting from a Traditional IRA to a Roth IRA. For those who haven't qualified to invest through a Roth IRA in the past, this may be a great retirement savings opportunity.

## Potential Tax Benefits

Generally, conversions from a Traditional IRA to a Roth IRA are taxable in the year of conversion. For 2010 conversions, however, an additional benefit of this opportunity is that investors may delay payment of any tax that occurs from the transfer. Any amount converted to a Roth IRA in 2010 will be included in income in equal amounts in 2011 and 2012. You can, however, choose to include the entire amount as income in 2010.

Consider the potential advantages offered by converting to a Roth IRA which include:

- Tax-free growth of IRA assets
- Tax-free withdrawals of IRA assets (assuming you are 59½ or older and the money has been held in the Roth IRA for 5 or more years)
- No minimum distribution requirements once you turn 70½

For more information contact a Pax World Representative at 800.767.1729.

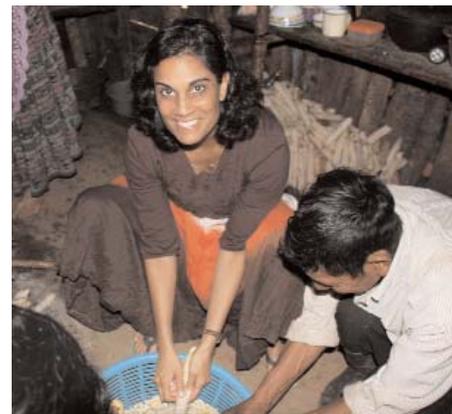
*Certain income limits still apply to annual contributions to Roth IRAs. For additional information see IRS Publication 590 or visit [www.irs.gov/publications/p590/ch02.html](http://www.irs.gov/publications/p590/ch02.html)*

*Please note that the information in this article does not constitute tax advice. Always consult your tax advisor before making any tax-related investment decision.*

## Women Thrive Worldwide Joins Global Citizen Program

Pax World is pleased to announce the addition of Women Thrive Worldwide to its Global Citizen Program, which enables Pax World shareholders to earmark portions of their dividends and/or capital gains as a contribution to one of two organizations—the other being Mercy Corps—that support Pax World's commitment to sustainable development.

Women Thrive develops, shapes and advocates for policies that foster



Ritu Sharma, Women Thrive Worldwide's President and Co-founder, shucking corn with a family in rural Guatemala. Sharma is also a member of the Pax World Women's Advisory Council. Photo courtesy of Women Thrive Worldwide

economic opportunity for women living in poverty. The organization focuses on encouraging U.S. international assistance and trade programs to prioritize women, in the belief that women are the key to ending global poverty, and empowering them is not only right, it's also the most effective long-term solution to world poverty.

For more than 20 years, Pax World's Global Citizen Program has supported Mercy Corps to bring help and hope to some of the world's poorest families. Now, with the addition of Women Thrive Worldwide, Pax World shareholders can help empower women all over the world.

## How to Join Pax World's Global Citizen Program

For more information about how to join the Pax World Global Citizen Program, please call 800.767.1729 or visit [www.paxworld.com/global-citizen](http://www.paxworld.com/global-citizen)

## Important Disclosures Please Read

**ESG Shares are new and have limited operating history. An investment in ESG Shares® and Pax World Mutual Funds involves risk, including loss of principal. You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. For this and other important information, please obtain a fund prospectus by calling 800.767.1729. Please read it carefully before investing.**

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