

## INSIDE

ECONOMIC OUTLOOK &  
MARKET COMMENTARY

NEW MONEY MARKET  
ACCOUNT SUPPORTS  
COMMUNITY DEVELOPMENT

PAX SHAREHOLDERS DONATE  
\$1 MILLION TO MERCY CORPS

WOMEN'S EQUITY FUND  
LETTER WRITING INITIATIVE

## Sustainable Investing Revolution Takes Hold

Pax World leads the way in industry transformation

by Julie Gorte, PhD

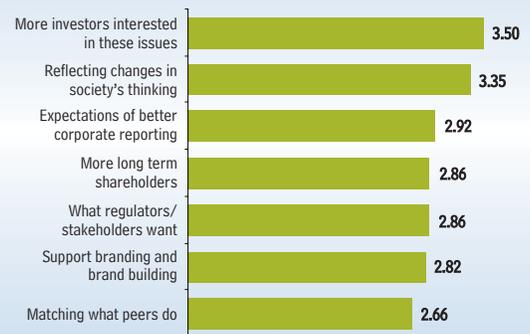
Thirty-seven years ago, Pax World was the first company to introduce socially responsible mutual funds in the United States. At almost the same time, evolutionary biologists Stephen Jay Gould and Niles Eldridge introduced a new and exciting idea—punctuated equilibrium—in evolutionary biology. The bumper sticker version of punctuated equilibrium is simply that species do not evolve in a smooth and continuous way, but rather experience periods of rapid change interspersed with longer stretches of relative inertia. The concept applies neatly to sustainable investing, as the past year has been one of the most exciting and transformative periods I can remember.

After its introduction, SRI grew quietly for the next three decades, and, while social investors notched many accomplishments, the field itself was regarded by most investment professionals as a niche, suitable for clients who wanted to match their investments to their personal values. In the last three or four years, though, there has been a seismic shift in the intellectual and theoretical underpinnings of SRI, and the shift is significant enough that a new species has emerged. Until very recently, any investment style that excluded anything from

the investment universe for any reason other than things narrowly defined as financially material was dubbed SRI. Now, however, there is a distinction between SRI and sustainable investing. In a recent survey done by AXA Investment Managers and AQ Research, global investment professionals (most of whom did not describe themselves as affiliated with “responsible investment”) revealed a distinct preference for the terms “ESG” (environmental, social, and governance) and “sustainability” over the more familiar “SRI” or “extra-financial,” terms that have been used to describe the field for decades. The survey also showed that respondents believed that ESG analysis, or integration of sustainability considerations into asset management, would yield investment benefits over the long term. In short, while the mainstream generally regarded “investing with personal values” as a niche, “sustainability” is a driver of

### Sustainability Factors Become Increasingly Important to Investment Managers

Investment Professionals were asked in a recent survey to explain the increased industry interest in sustainable investing.



Scale: “Really don’t like” (1) to “Really like” (4)

Source: AQ Research Ltd. [www.aqresearch.com](http://www.aqresearch.com)

long term value. Sustainable investing has become a discipline.

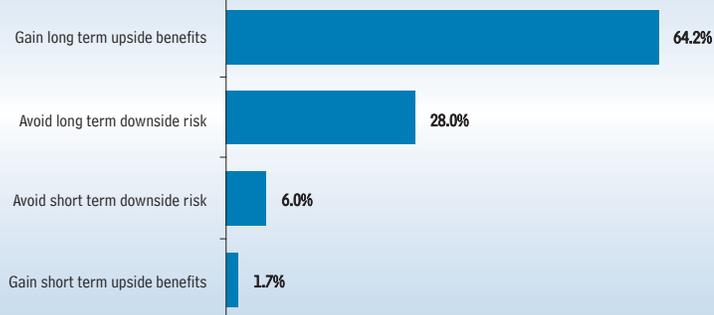
Pax has been one of the pioneers in the shift to sustainable investing, an emergent, potentially transformative investment discipline. This commitment pervades our work: in the company research we do, in our proxy voting, shareholder advocacy, and more generally, as one of a select number of organizations that have been catalysts in the investment community’s growing awareness of the importance of sustainability.

### Sustainability Research Department Builds Investment Universe

On the research front, much of our work over the past year has been devoted to introducing new funds. Following the launch of the Pax World Value Fund and our acquisition of the Women’s Equity Fund last fall, we introduced three additional new funds—the Pax World Small Cap, International, and Global Green Funds. The Sustainability Research Department has been devoted to conducting environmental, social, and governance (ESG) analysis of companies to building investment universes for those three new funds. Every bit of the company research we do also helps us to refine our criteria and develop a deeper understanding of the key ESG indicators for each industry and sector, as well as to adjust those criteria as

### Key Motivators for Incorporation of ESG Factors

In the AQ survey, respondents were also asked to select their principal motivation for paying more attention in their investment process to ESG factors.



Source: AQ Research Ltd. [www.aqresearch.com](http://www.aqresearch.com)

companies and industries themselves change.

A year ago, it was unusual to see an insurance company that informed its shareholders of the risks associated with climate change. Now, it is far more common. Even as recently as two or three years ago, only a minority of apparel manufacturers had vendor codes of conduct governing issues like child labor, forced labor, and sweatshops; now it is unusual to encounter an apparel manufacturer of any size that has no such policy.

### Effecting Change Through Advocacy Initiatives

We recently launched an advocacy initiative for the Women’s Equity Fund, focusing on human trafficking (see article on back page), urging companies to develop policies that will help to

assure that they and their employees are not complicit in trafficking. We also wrote to more than 50 companies asking for information or urging development of policies regarding employee safety, climate change, political contributions, and options backdating. We have collaborated with other sustainable investors urging action on issues including tax incentives for the development of clean technology, the impact of tar sands development, disclosure of climate risk by the insurance industry, and the use of child labor in Uzbekistan. Finally, we are participating in stakeholder groups working with Dell, AEP, Sun Microsystems, and other companies to improve their sustainability reporting and performance.

Our work is quite literally never done, but there has never been a better time to do it, and it is difficult to imagine a more rewarding kind of work to do. We know that businesses and markets today are far from being sustainable, and that global problems from climate change to extreme poverty call out for solutions. Our hope is that sustainable investing can play an important role in addressing such problems, and in fashioning solutions. ■



**Julie Fox Gorte, PhD, is the Senior Vice President for Sustainable Investing at Pax World.** She oversees environmental, social, and governance-related research on prospective and current investments as well as Pax’s shareholder advocacy and work on public policy advocacy. Dr. Gorte serves on the boards of Ceres, the Center for a New American Dream, and the Pinchot Institute. She has served as the co-chair of the Asset Management Working Group of the United Nations Environment Programme Finance Initiatives, and is a member of the Forest Economics and Policy Program’s advisory panel.

# Economic Outlook & Market Commentary

by Chris Brown, Chief Investment Strategist, as of 9/18/08

It is always darkest before the dawn, and I believe this expression adequately describes the current market environment.

While the past year has seen increasing volatility in the markets, the month of September is proving to be an especially trying time for investors. Equity markets continue to experience significant pressure from the sub-prime fallout, led by a growing list of major U.S. companies crumbling as a result of their exposure to this toxic mess. While current and future portfolio holdings are subject to risk, Pax World Funds did not hold AIG, Lehman, Fannie Mae or Freddie Mac common stock at the time of their announcements, but like everyone else, we have felt their ripple effect throughout the markets. Although it is very difficult to call a bottom for the markets, we are beginning to see some evidence that we could be approaching a turning point. Let us hope we are near that point.

While the market environment looks extremely negative, we have witnessed significant involvement from the U.S. Treasury and Federal Reserve Bank in maintaining liquidity to the markets. While this government intervention does not alleviate the short-term volatility, we believe the longer-term impact will be a more stable market environment. We have also seen some positive developments that are worth mentioning. Commodity prices have

corrected and probably have further to go. Mortgage rates have dropped which may help stem the decline in housing prices. And the weak U.S. dollar has helped increase our export activity while decreasing demand for imports, resulting in a surprising resilience in GDP growth.

**“While times like these can cause concern for even the most experienced investors, history has proven that the best strategy for riding out market uncertainty is to avoid the temptation to panic by focusing on your long-term financial goals.”**

At Pax World, we strongly believe that Sustainable Investing—the full integration of environmental, social and governance (ESG) factors into financial analysis and decision making—is a strategy for identifying better-managed companies and constructing investment portfolios that are better positioned for the long term.

While times like these can cause concern for even the most experienced investors, history has proven that the best strategy for riding out market uncertainty is to avoid the temptation to panic by focusing on your long-term financial goals. Studies have shown that the bulk of investment returns are earned during short periods of time, often during market turnarounds. But there’s no way to accurately predict when stocks will start to rise. That’s why the key to capturing gains during a market turnaround—which we believe will happen—is to stay invested through the preceding period of market declines.

We at Pax believe there are many investment opportunities that are now even more attractive than they were eight months ago. Using our rigorous financial and ESG (Environmental, Social and Governance) analysis, we continue to identify and invest in companies that represent key investment themes, such as water infrastructure, agriculture, and renewable energy, to name a few. We believe these themes should prosper over the longer term regardless of the economic environment. Our long-term investment outlook allows us to patiently wait for these themes to fully play out in the hopes that you, our shareholder, will ultimately benefit from this disciplined investment approach. ■

*The Pax World Funds’ sustainable investing policies may inhibit the Funds’ ability to participate in certain attractive investment opportunities that otherwise would be consistent with its investment objectives and other principal investment strategies.*



**Christopher H. Brown is Chief Investment Strategist for Pax World.** He has over 20 years of investment experience. He joined Pax World in April 1998 as co-manager of the Pax World Balanced Fund and has served as its sole manager since October 2001, and has served as co-manager of the Pax World Growth Fund since November 2006. Prior to joining Pax World, Mr. Brown was an Investment Consultant at Fahnestock & Co., Inc., a NY Stock Exchange brokerage firm, from 1987 to 1998, and First Vice President from 1994 to 1998.

# New Money Market Account Supports Community Development

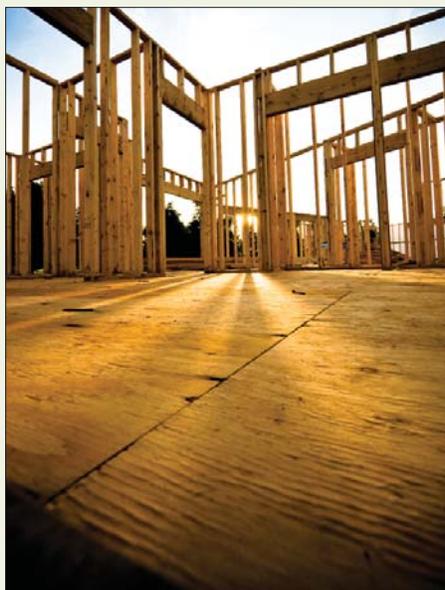
In September the new Pax World Money Market Account (PWMMA) at ShoreBank was launched. ShoreBank is the nation's first and leading community development and environmental banking institution. The PWMMA is available as a replacement to the Pax World Money Market Fund—now closed<sup>1</sup>—as a cash management option for Pax World investors. The PWMMA at ShoreBank, which is not a mutual fund, supports Pax World Management Corp.'s goal of supporting community development programs.

Assets deposited in the PWMMA at ShoreBank help revitalize underserved communities through community development and conservation loans that help to:

- spur neighborhood redevelopment projects
- assist first-time home buyers
- finance women- and minority-owned businesses
- promote conservation, alternative energy and “green collar” jobs
- help non-profit and faith-based organizations provide much-needed services

ShoreBank's mission—to invest in people and their communities to create economic equity and a healthy environment—complements Pax World's commitment to sustainable investing and sustainable development.

More than 1,400 Pax World customers have invested approximately \$17.45 million at ShoreBank through the PWMMA. Account holders are able to exchange in and out of the PWMMA from the Pax World Funds, can write unlimited checks, and will receive a consolidated statement that includes their PWMMA balance and history along with their Pax World Funds. The



PWMMA also has the advantage of FDIC insurance (subject to the FDIC's rules and limits).<sup>2</sup>

Since its inception in 1973, ShoreBank has invested more than \$3.5 billion to finance the purchase and renovation of more than 52,000 units of affordable housing and the creation of 11,000 new jobs for local residents. Headquartered in Chicago, ShoreBank is a \$2.4 billion company with banks and nonprofits in Chicago; Cleveland; Detroit; Ilwaco, Washington; Portland, Oregon; and Michigan's Upper Peninsula; as well as consulting services around the world. ■

<sup>1</sup>The Board of Directors of the Pax World Money Market Fund voted to close the Fund and liquidate its shares. Fund shareholders approved this decision at a special meeting on September 15, 2008. The decision to close the Fund was based on the fact that the Fund had failed to grow or attain the scale necessary to be economically viable.

<sup>2</sup>The Pax World Money Market Account is FDIC Insured for up to \$200,000 because assets in the account are allocated between separately chartered banks within the ShoreBank family. Please note, however, that for purposes of determining the FDIC coverage, any money that you have on deposit within the ShoreBank family will be combined with the amount on deposit in your PWMMA.

**The Pax World Funds are not affiliated with any bank and are not insured by the FDIC. Pax World Management Corp. and Shore Bank are not affiliated. The PWMMA is not distributed by ALPS Distributors, Inc.**

## What Is A Money Market Deposit Account?

Similar to a traditional savings account, a money market deposit account is a type of savings account offered by banks and credit unions. Money markets typically pay higher interest, have higher minimum balance requirements and have some limits on the number of withdrawals an account holder can make each month. Money market accounts like the Pax World Money Market Account are also similar to checking accounts in that they offer check-writing privileges.

When you put your money into a money market deposit account it earns interest, which is money the bank pays you for using your deposits to make loans to other people.

Assets in money market deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC protects customers' deposits even if a bank or credit union goes out of business. The FDIC is an independent agency of the federal government that was created in 1933 because thousands of banks had failed in the 1920s and early 1930s. In the FDIC's 75-year history, no customer has ever lost a single penny of insured deposits.<sup>1</sup>

<sup>1</sup>Subject to the FDIC's rules and limits.

Source: FDIC, August 18, 2008, <http://www.fdic.gov/consumers/banking/confidence/symbol.html>

# Pax World Shareholders Donate \$1 Million to Mercy Corps

The Pax World Global Citizen Program recently reached a significant milestone when shareholder donations to Mercy Corps, one of the world's leading humanitarian relief organizations, reached the \$1 million mark.

Pax World's Global Citizen Program enables Pax World shareholders to earmark portions of their dividends and/or capital gains as a contribution to Mercy Corps to support its work. Through this program, Pax World shareholders can support humanitarian relief efforts, peace and reconciliation initiatives, and sustainable development projects around the globe.

Mercy Corps seeks to alleviate suffering, poverty and oppression by helping people build secure, productive and just communities. Mercy Corps works amid disasters, conflicts, chronic poverty and instability to unleash the potential of people who can win against nearly impossible odds. Since 1979, Mercy Corps has provided \$1.5 billion in assistance to people in 106 nations. Supported by offices in North America and Europe, the agency's unified global programs employ 3,500 staff worldwide and reach nearly 16.4 million people in more than 35 countries.

Mercy Corps recently earned the highest rating from CharityNavigator.org for the 5th consecutive year, an achievement of sound fiscal management that's been matched or surpassed by only 3 percent of rated charities.

For more than 20 years, Pax World has worked with Mercy Corps to bring help and hope to some of the world's poorest families. In that time, Pax World investors' donations have supported humanitarian work worldwide in areas such as Honduras, North



A student in Yunji, a poor Chinese village hit hard by the May 12 earthquake, is eager to take home his Mercy Corps hygiene kit, which contains a variety of essential household supplies. Photo by Norman Ng for Mercy Corps.

Korea, and the Darfur region of Sudan. In particular, Pax World investors' contributions were pivotal in the creation of the Mercy Corps Global Emergency Operation, which addresses humanitarian crises worldwide and serves as a technical resource on emergency preparedness and security.

Most recently, Mercy Corps volunteers have been on the ground assisting survivors of two natural disasters—the earthquake in the Sichuan Province of China, and Cyclone Nargis in Myanmar. Mercy Corps is continuing to reach out to earthquake-affected families and children, bringing much needed emergency relief as well as implementing psychosocial programs to

aid in the process of long-term healing. Mercy Corps is helping survivors of Cyclone Nargis by supporting the UK-based medical aid organization Merlin with logistical support, financial resources, and a team of disaster-response experts. In addition to disaster relief, Mercy Corps also supports a number of global issues such as food shortages, emergency response, the crisis in Sudan and in Gaza, and climate change.

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

If you are a new Pax World shareholder and would like to join the Pax World Global Citizen Program, simply check off the appropriate box on your account application. We will send you the registration form.

If you are an existing Pax World shareholder and would like to join the Pax World Global Citizen Program visit [paxworld.com/about/global-citizen](http://paxworld.com/about/global-citizen) to download the Mercy Corps form. To make a one-time donation to Mercy Corps, visit [www.mercycorps.org](http://www.mercycorps.org).

Additional information may be obtained by writing to Mercy Corps at 3015 SW 1st Avenue, Portland, OR 97201, by telephoning Mercy Corps at 503.796.6800 ext. 352 or (toll-free) at 800.292.3355 ext. 352 or Pax World Funds (toll-free) at 800.767.1729, or by visiting the Mercy Corps website at [www.mercycorps.org](http://www.mercycorps.org). ■



# Women's Equity Fund Letter Writing Initiative

According to the U.S. Department of State's Trafficking in Persons Report, human trafficking generates an estimated \$9.5 billion annually and is the world's third largest criminal enterprise; other estimates suggest that it may be as high as \$32 billion. And it is estimated that 12.3 million people may be trapped in forced or bonded labor, forced child labor and sexual servitude at any given time and that 80% of people trafficked between countries are women.

Human trafficking is defined by the United Nations as "the recruitment, transportation, transfer, harboring or receipt of persons, by means of the

threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position or vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation."<sup>1</sup>

Pax World is committed to playing an active role in working to reduce trafficking globally. The Women's Equity Fund recently launched an advocacy initiative focusing on human trafficking. The program began by sending letters to companies urging them to develop policies that will help to assure that they and their employees

are not complicit in trafficking, even inadvertently. The 16 companies selected for the initiative all do business in industries or areas where trafficking is, sadly, commonplace.

To date, the Pax World Sustainability Research Department has received responses from four of the companies, all of which have affirmed their commitment to avoid any involvement in trafficking; one of the companies also promised to make trafficking a focus as it revises its code of ethics. Stay tuned to the next issue of *Connection* for an update on this important initiative.

For information on initiatives aimed to combat human trafficking visit:

[www.state.gov/g/tip/](http://www.state.gov/g/tip/)

2008 U.S. State Department report *Trafficking in Persons Report*.

[www.ecpatusa.org](http://www.ecpatusa.org)

ECPAT-USA is a non-profit whose mission is to protect all children from commercial sexual exploitation through education, advocacy, and the passage and enforcement of strong laws.

[www.humantrafficking.org](http://www.humantrafficking.org)

Resource for combating human trafficking which contains country-specific information such as national laws and action plans and contact information on useful governmental agencies. ■

<sup>1</sup>United Nations, <http://www.unescap.org/esid/GAD/Issues/Trafficking/index.asp>

## 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](http://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 ALPS Distributors, Inc., Member FINRA. PAX000175 (1/09)

Editor Donna Marsh  
Layout Dorset Norby & Eric McCallister

© 2007 Pax World Management Corp.  
30 Penhallow Street, Suite 400  
Portsmouth, NH 03801

**General Fund Information:**  
☎ 800.767.1729

**Shareholder Account Information:**  
☎ 800.372.7827

[www.paxworld.com](http://www.paxworld.com)