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**Joseph F. Keefe,**  
President & CEO

## Dear Fellow Shareholders, 2009 was another eventful year at Pax World—and a volatile year on the economic front.

Fortunately for our shareholders, the market recovery that began in March has gone a long way toward restoring losses that were suffered in last year's financial debacle. The S&P 500 Index was up 24% as of 11/30/09, and other market indexes have performed solidly as well. We are still not out of the woods, however, as a broader economic recovery remains hampered by high unemployment and other systemic weaknesses. Moreover, there is widespread concern that "too big to fail" investment bankers have profited handsomely while the nascent economic recovery has yet to reach the average citizen. Surely, the jury is still out on when the long-anticipated economic turnaround will finally begin to take shape.

At Pax World, our response has been to buckle down and focus on what we do best: managing investment portfolios for investors who believe that more sustainable companies are better long-term investments. Unlike other investment managers, who often ignore important issues such as outlandish executive compensation, predatory lending, or whether a company is taking steps to address potential climate change liabilities, we think such issues can be particularly relevant to investors. This past year, we engaged hundreds of companies on a range of matters including sustainability reporting, environmental impact and gender diversity and women's empowerment.

We also continue to actively weigh in with regulatory authorities on issues of import: In 2009, we petitioned the SEC to require

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## Avoiding the Unmanageable: Investors, Pax, and Climate Change

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

In December 2009, the nations of the world gathered in Copenhagen at the fifteenth Conference of the Parties to the Kyoto Protocol, or COP 15, to discuss a new template for reduction in greenhouse gas emissions. At the time of this writing in early December, it's not clear what the outcome of the conference will be. However, going into it, there is universal

agreement that COP 15 will be the beginning of the critical work necessary to achieve significant emissions reduction—not the end.

There is no more important problem to solve. Climate change will likely bring increased severity of floods, fires, storms and droughts, and a rising sea level. This could disrupt key pieces of the mechanisms of commercial

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Bruce Jenkyn-Jones

# Pax World Global Green Fund Well-Positioned for Potential Environmental Sector Growth

An interview with Pax World Global Green Fund Portfolio Manager Bruce Jenkyn-Jones and Senior Analyst Simon Gottelier



Simon Gottelier

The Pax World Global Green Fund invests in leading clean-tech companies around the world that address critical environmental problems. Using a unique Sustainable Investing methodology that combines rigorous financial analysis with equally rigorous environmental, social and governance (ESG) analysis, the Fund invests in such areas as alternative energy and energy efficiency, water treatment and pollution control and waste and resource management. While there's nothing to be gained from environmental problems, we think there's plenty to be gained from correcting them.

We talked with Pax World Global Green Fund Portfolio Manager Bruce Jenkyn-Jones and Senior Analyst Simon Gottelier to learn how they believe the Fund is poised to benefit from current economic and legislative developments in the environmental sector.

**President Obama has just about completed his first year in office. How has the new administration and the American Recovery and Reinvestment Act in particular—which allocated almost 20 percent of funding to green infrastructure, such as water or energy efficiency improvements and other environmentally innovative activities—impacted environmental investing globally?**

Bruce: Both have impacted environmental investing significantly. Eighty billion dollars of stimulus package funding has been allocated directly to the environmental end

markets that we invest in, which has been a huge boost for the sector. Certainly some areas have been slow to feel the effects of this injection, but we anticipate the benefits will be materially felt in the coming year and throughout 2011. The energy efficiency sector, particularly buildings energy efficiency, has benefited significantly. In the United States you can see the results of direct spending on the efficiency of federal and government buildings.

Simon: We have also been particularly pleased to note that despite the economic volatility in global markets, when the great fear was that the environment would be de-emphasized, the exact opposite has happened: Climate change and environmental investing has remained at the top of the political agenda.

**The International Energy Agency (IEA) recently reported that to avoid dangerous climate change, countries around the world will have to spend \$400 billion a year building more than 350 new nuclear plants and 350,000 wind turbines in the next 20 years.<sup>1</sup> Which sectors of the environmental investing market do you expect may benefit from a potential related renewable energy trend, and is the Global Green Fund well-positioned to benefit from this?**

Bruce: We expect independent power producers, most particularly in the wind energy space, to benefit most. The portfolio has invested in companies in this sector that we expect will show strong capacity-based growth. We believe wind project developers, for example, are well-positioned for success due to factors

such as government support, state level renewable portfolio standards and improving power pricing. The Fund is also exposed in areas such as wind turbine manufacturing and gear-box supply, both of which we believe will see strong orders growth in 2010.

The IEA also estimates that 60 percent of cars will need to use alternatives to the traditional internal combustion engine by 2030. The Fund is exposed to the shift away from the combustion engine through companies that produce automotive components, specifically the electronics control systems for a number of hybrid and electric vehicles.

It is our belief that the electric grid will need to improve its efficiency to cope with the extra demand for power that will arise from people charging up their plug-in cars. Eleven billion dollars of stimulus funding has been appropriated for investment in smart grid development, including grid infrastructure, demand side management and automated meter reading. Due to its exposure in the automated meter reading space, we believe the Fund is well-positioned to benefit from the expected future growth of the smart grid.

**Recent positive stock market activity has many investors cautiously optimistic that a global economic recovery might be underway. Are signs also positive in the environmental sectors, and what is your outlook for 2010?**

Bruce: Our outlook for 2010 is broadly positive. As discussed, we believe the

# Board Diversity Disparity in United States Is Missed Opportunity

In the United States, fewer than one in five board seats at Fortune 500 companies are held by women, yet women comprise more than 50 percent of managerial, professional and related positions in the U.S. workforce.<sup>1</sup> This disparity indicates a clear disconnect between the number of women on boards of directors and the ranks of women in positions regarded as prime career paths for directors. With the myriad benefits associated with diversity at every level—from the shop floor to the boardroom—failing to embrace board diversity is truly a missed opportunity for many U.S. companies.

According to Linda Tarr-Whelan, chair of Pax World's Women's Advisory Council, true progress can be achieved, and the full benefits of diversity experienced, with what she calls "The 30% Solution." In her latest publication, *Women Lead the Way* (see related article on page 5), Tarr-Whelan argues that when groups are comprised of one-third or more women, better decisions are made, with more positive outcomes. And including women in upper management positions may provide a competitive advantage for companies, as well.<sup>2</sup> A 2007 Catalyst study on board diversity and financial

performance found that those companies with the highest proportion of women on their boards of directors outperformed those with the lowest percentage of women 42% to 66% on the basis of three financial indicators.<sup>3</sup> Other studies have been done as well, with the majority indicating that those companies with higher percentages of women on their boards or in senior management outperform those that lack such gender diversity.<sup>4</sup>

Policy makers have over the years tried several different approaches to increasing board diversity. Recently, Norway and Spain have addressed the issue with public policy. On January 1, 2008, a Norwegian law went into effect requiring that at least 40% of the members of boards of publicly held companies must be women. In 2007, Spain instituted a similar law which recommends that women comprise 40 percent of board seats by 2015. The leading party in France announced in October that it would introduce legislation requiring women to hold 40 percent of board seats. Other countries, including the U.S., have left the matter to individual companies. Some companies have taken up the charge by developing strong pipelines with the

goal of moving women to management ranks and preparing them for board service.

At Pax World, we believe that board diversity is good for business, and that it is an indicator of management quality. That is why Pax World strives to withhold proxy votes from (or when permitted, votes against) all board slates that have no gender diversity, and votes in favor of shareholder proposals to diversify boards or make diversity a key component of every director search. We also engage companies whose boards we withhold votes from to let them know of our preference for gender-diverse boards. We will continue to push for "The 30% Solution" among the companies we invest in, recognizing that companies that include women on their boards and in their senior management may also make better long-term investments. ■

<sup>1</sup>Catalyst, "Women in U.S. Management," November 2009

<sup>2</sup>Linda Tarr-Whelan, "Women Lead the Way," 2009.

<sup>3</sup>Catalyst, "The Bottom Line: Corporate Performance and Women's Representation on Boards," 2007.

<sup>4</sup>Examples: David A. Carter, Frank D'Souza, Betty J Simkins and W. Gary Simpson, "The Diversity of Corporate Board Committees and Firm Financial Performance," Department of Finance, Oklahoma State University, March 15, 2007; and Niclas L. Erhardt, James D. Werbel and Charles B. Shrader, "Board of Director Diversity and Firm Financial Performance," *Corporate Governance* (11:2), April 2003.

## GLOBAL GREEN FUND CONTINUED FROM PAGE 2

global stimulus packages will continue to benefit portfolio holdings as funding begins to flow. Environmental legislation is continuing to build momentum, most notably in the United States with the potential establishment of binding renewable energy legislation, which we believe will offer additional support to the performance of selected renewable energy, grid and energy efficiency related companies.

Encouraging signs of momentum in corporate acquisition activity and ongoing improvements witnessed in the debt and equity markets, combined with the fact that refinancings are increasingly achievable and successful, gives us confidence that companies requiring funding will be able to source it. The problems caused by climate change, environmental degradation and resource scarcity are ever increasing. We see

compelling investment opportunities being created as the world responds to these problems. Environmental sector companies, products and services from across the globe are continuing to grow rapidly and are generating highly attractive investment returns, a trend which we think will continue—and which we believe will bode well for the Fund. ■

<sup>1</sup>Source: International Energy Agency.

enterprise, and could also possibly create millions—perhaps tens or hundreds of millions—of climate refugees, people whose livelihoods, homes or communities are drowned or devastated by rising waters, fierce storms or unremitting drought. A 2009 report on the impacts of climate change in the United States warns that surges from increasingly severe storms, together with rising sea levels, threaten the majority of the nation's top 10 freight gateways and ports, and the nation's oil and gas industry.<sup>1</sup>

Pax World has worked for many years to be part of the solution, and while the real work of avoiding the unmanageable impacts of climate change is still ahead of us, our efforts are beginning to pay off. Pax was one of a group of 22 state officials, pension funds, foundations and asset managers that petitioned the SEC in 2007 to provide interpretive guidance on corporate reporting of climate change risks.<sup>2</sup> Since that petition was filed, Pax representatives have joined the petition's organizers (Ceres and Environmental Defense) and representatives of state insurance commissions and public employee pension funds in meetings with senior staff of the SEC, including Mary Schapiro and other commissioners, to urge that the agency act on the petition and provide supplementary information. While the SEC has yet to announce anything concrete, signs are promising: In a recent speech, SEC Commissioner Elisse Walter stated, "We are taking a very serious look at our disclosure system in this area. Although I've stated publicly that we are not an agency populated with climate experts, we are taking affirmative steps to better educate ourselves. I have recently met with a number of experts who analyze the risks and opportunities posed by climate

change. Discussions at these meetings have confirmed my belief that climate change is a very serious issue. And, I believe that it is time for us to consider issuing interpretive guidance regarding disclosure in this area."<sup>3</sup>

Pax was also a contributor to letters from Ceres and the Social Investment Forum supporting the EPA's proposal to make reporting of greenhouse gas emissions mandatory for large emitters last March. In September, the EPA finalized the rule, and for the first time, thousands of businesses in the United States will begin to track their emissions in January of 2010, and will report them in 2011. While reporting is clearly not the same as mandatory reduction or caps on emissions, the disinfectant power of sunshine has already proven itself. The EPA has been requiring disclosure of emissions of hazardous waste under the Toxics Release Inventory Program since 1988, and in its most recent data release, the agency reported that "manufacturing facilities decreased their on- and off-site disposal or other releases by 61% based on chemicals that have been consistently reported since 1988."<sup>4</sup>

We have a long way to go in achieving the kinds of emissions reduction necessary to truly mitigate climate change. Already, President Obama has announced that the United States will not be able to take to Copenhagen a commitment to mandatory emissions reduction, as the Senate has failed to pass legislation. But the President also



announced that he has made an international agreement including mandatory reduction a top priority for his administration in the months following COP 15. This commitment, together with the new EPA rule on emissions reporting, is already more progress than that of any previous administration. At Pax, we are delighted that our efforts to support this change have begun to pay dividends, and we are committed to staying this course as long as it takes to truly solve the problem of climate change. ■

<sup>1</sup>Thomas R. Karl, Jerry M. Melillo and Thomas C. Petersen, eds., *Global Climate Change Impacts in the United States*, (Cambridge University Press, 2009).

<sup>2</sup>California Public Employees Retirement System et. al., "Petition for Interpretive Guidance on Climate Risk Disclosure," SEC File No. 4-547, October 18, 2007.

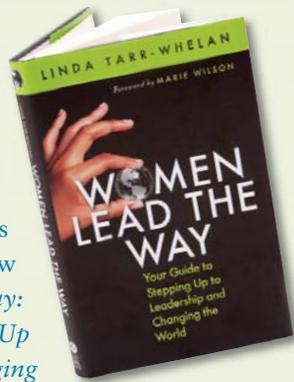
<sup>3</sup>Commissioner Elisse B. Walter, "SEC Rulemaking—'Advancing the Law' to Protect Investors," speech at the 48th Annual Corporate Counsel Institute, Northwestern University School of Law, October 2, 2009. Available at <http://www.sec.gov/news/speech/2009/spch100209ebw.htm>.

<sup>4</sup>United States Environmental Protection Agency, "2007 Toxics Release Inventory (TRI) Public Data Release Report," March 2009, available at [http://www.epa.gov/tri/tridata/tri07/brochure/EPA\\_TRI\\_Brochure\\_2007\\_mar.pdf](http://www.epa.gov/tri/tridata/tri07/brochure/EPA_TRI_Brochure_2007_mar.pdf).

# Book Review: *Women Lead the Way* by Linda Tarr-Whelan

Book Highlights Importance of Women's Representation in Upper Management

While women have come a long way in terms of advancing their careers and creating professional opportunities, there is much more room for growth in the upper echelons of today's corporate world. In her new book *Women Lead the Way: Your Guide to Stepping Up to Leadership and Changing the World*, Linda Tarr-Whelan reveals eye-opening facts and figures to decisively dispel the myths that still hold women back, and encourages women to build their confidence and skills to pioneer a distinctive approach to leadership, one that emphasizes collaboration, communication and consensus.



held by men, a situation that makes real change within organizations very challenging. Ms. Tarr-Whelan states that when women's representation in the upper levels of leadership reaches the critical tipping point of 30 percent, real change begins to happen.

Drawing on her extraordinarily diverse background as a mother, consultant, organizer and diplomat, she offers a women-led strategy for change and a complete set of practical road-tested tools readers can use to become powerful partners in creating a better future in a rapidly-changing world.

Linda Tarr-Whelan is a premier expert on women's leadership in this country and internationally, and a distinguished fellow of the national think-tank DEMOS. She was a U.S. delegate to the

United Nation's 4th World Conference on Women in Beijing, and her career path and networks stretch across the globe. She has also held leadership roles in business, nonprofit and political organizations, including union organizer and negotiator, lead lobbyist for a two million-member teacher's organization, Deputy Assistant to President Jimmy Carter and U.S. Ambassador to the United Nations Commission on the Status of Women, appointed by President Bill Clinton.

Ms. Tarr-Whelan is also chair of the Pax World Women's Advisory Council. The Council, comprised of nationally-known leaders and experts on women's issues, assists Pax World in its efforts to advance women and gender equality through the Pax World Women's Equity Fund, the only fund in America seeking long-term growth of capital while advancing the social and economic status of women in the workplace and beyond. ■

## LETTER FROM THE PRESIDENT CONTINUED FROM FRONT PAGE

companies to disclose environmental, social and governance (ESG) performance data, to grant shareholders access to the corporate proxy ballot to nominate directors, and to give shareholders the right to cast annual "say on pay" votes for publicly traded corporations—not just TARP (Troubled Asset Relief Program) recipients, but all public corporations. We have also been part of efforts to require greater climate risk disclosure. In fact, Julie Gorte, our senior vice president for Sustainable Investing, was part of a delegation that recently met with SEC Chair Mary Schapiro to discuss climate risk and ESG disclosure.

We also continue to launch new products and initiatives to better serve our investors. Over the past two years we have launched four new funds—the Pax World Women's Equity Fund, Small Cap Fund, International Fund and Global Green Fund. As we go to print, we are busy working on two new series of innovative fund offerings that will provide investors with additional Sustainable Investment options. Stay tuned, as we hope to be making some exciting announcements in the very near future.

As always, we welcome shareholder input and ideas and I encourage you

to contact us about any matter at any time.

In the meantime, our team at Pax World enters 2010 with great enthusiasm and high hopes that the coming year will see marked progress toward a more just and sustainable society, a more vibrant and inclusive economy and financial markets that reward prudent long-term investors.

Happy New Year. ■

*Performance data quoted represents past performance, which does not guarantee future results. The S&P 500 Index is an unmanaged index of large capitalization common stocks. Investors cannot invest directly in an index.*

# Shareholder Corner

## Automatic Investing Plans: Worthwhile Financial Resolutions for the New Year

When making your New Year's resolutions, be sure to include one that can be critical to your financial future: setting an attainable savings goal for 2010. Economic conditions have made saving for retirement challenging for many investors, but often small, regular investments make the difference over time in achieving financial security. One of the most effective ways to do so is by setting up an automatic investment plan (AIP).

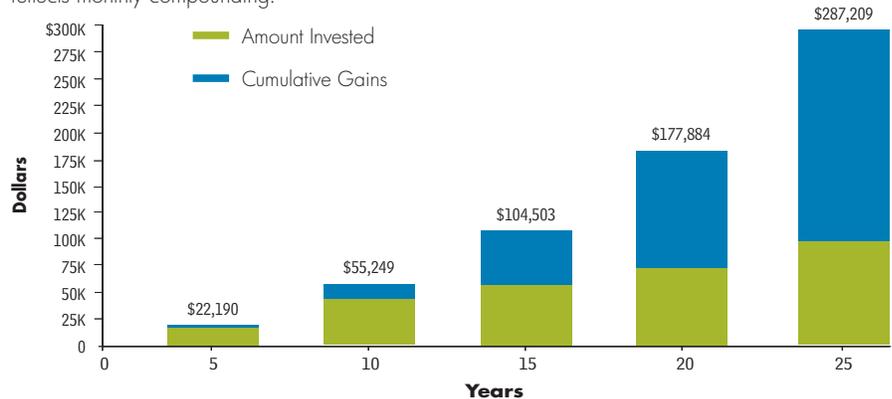
Through an AIP you can arrange to have a fixed dollar amount automatically deducted from your checking or savings account on a regular basis and directed to an investment account. As a Pax World shareholder, you can set up an AIP monthly or quarterly into any of seven Pax World mutual funds or our money market account.

Automatic investing offers several important benefits that may help you achieve your long-term savings goals:

- **Pay yourself first:** When you set up an AIP you put your financial future first—ahead of the temptation of non-essential items such as travel or dinners out.
- **Dollar Cost Averaging:** Buying shares of an investment at the same time each month or

## CAPTURE THE POWER OF COMPOUNDING WITH AN AIP\*

If an investor makes an initial investment of \$300 and then invests \$300 a month using an Automatic Investment Plan, he or she would have just over \$287k in 25 years due to the power of compounding, based on an annual average return of 8% with dividends reinvested. Each example is pre-tax and reflects monthly compounding.



\* This is a hypothetical illustration and should not be considered indicative of any Pax World investment. Source: Pax World Management Corp.

quarter, regardless of current market trends, can potentially lower your average cost per share. When prices are high, you'll buy fewer shares. But when prices are low, you'll buy more.

- **The Power of Compounding:** Because of the power of compounding—earning a return on the sum of an original investment as well as any accrued returns—money invested early can grow much more dramatically than money invested later (see chart above).

Setting up a Pax World AIP is simple. You can do so by completing the Optional Account Services form, which can be downloaded from the customer service section of [www.paxworld.com](http://www.paxworld.com), or have the form mailed to you by calling a Pax World Shareholder Services Representative at 800.767.1729 ■

*Automatic investment plans do not assure a profit and do not protect against loss in declining markets. Please note that the information contained in this article does not constitute investment or tax advice. Always consult your tax advisor before making any tax-related or investment decision.*

## At Your Fingertips — Important Tax Information and Dates to Remember

**Tax form mailing deadline 1099-R & 1099-Q:** February 1, 2010

**NEW Tax form mailing deadline 1099-B/1099-DIV, 1099-INT:** February 16, 2010

**Deadline for a 2009 IRA contribution:** April 15, 2010

**Tax form mailing deadline 5498:** May 31, 2010

**2010 Traditional and/or Roth IRA contribution limit:**

\$5000/ \$6000 age 50 or older

*\*1099R reports redemptions from retirement accounts; 1099Q reports redemptions from a Coverdell ESA; 1099B<sup>1</sup> reports redemptions from a non-retirement account; 1099DIV reports taxable dividends and capital gains paid to non-retirement accounts; 1099INT reports taxable interest income earned on a non-retirement account; 5498 reports retirement account contributions.*

<sup>1</sup>Cost Basis information will be included with 1099B forms, if applicable.

**Year-end statements ONLINE:** January 8, 2010

**Qualified Dividend Income and Pass-Through Exemptions Information ONLINE:** January 22, 2010

**Tax-forms ONLINE (available to download):** February 28, 2010

## 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 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.

The principal risks of investing in the Pax World mutual funds include (i) price volatility, (ii) credit risk (the possibility that the issuer of a bond will be unable to make interest payments and/or repay the principal on its debt), (iii) interest rate risk (the risk that the price of bonds and the value of the fund can decrease when interest rates rise), (iv) risks associated with foreign security investments (such as the risks of political or economic instability in the country of the issuer, the possibility of the imposition of exchange controls, and the risk of currency fluctuations), (v) leverage risk, (vi) risks associated with sustainable investing, (vii) management risk and, in general, (viii) the risk of losing money by investing in the funds.

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