Connection

Summer 2011 | A Newsletter for Sustainable Investors

PAX Pax World Mutual Funds | For Tomorrow®

INSIDE

Pax Reviews Nuclear Power Safety Conditions in Wake of Fukushima Daiichi

By Julie Gorte, Ph.D., Pax World Senior Vice President for Sustainable Investing

The earthquake and tsunami that devastated much of the coast of Northern Japan on March 11, 2011, rocked markets, disrupted supply chains and left thousands of people dead or homeless. These unavoidable events reminded everyone that no matter how technologically advanced and prepared we may be, we cannot isolate ourselves from the planet that sustains us. But the subsequent disaster at the Fukushima Daiichi nuclear power station and its still-ongoing emergency also remind us that sometimes the technologies that liberate us can be sources of tragedy and devastation. When a company disaster has regional or global implications, extra care is warranted. Extraordinary impact requires extraordinary vigilance.

As a result of the Fukushima Daiichi disaster, Pax World has conducted a review of the safety conditions of nuclear power globally. This review included the following:

1. Updating all statistics on significant safety problems at all U.S. reactor facilities.
2. Examination of the location of all GE Mark I boiling water reactors. After the Fukushima crisis there were many reports that the design was significantly flawed.
3. Assessing information on failures of Emergency Diesel Generating (EDG) units globally. At Fukushima, much of the radiation leakage was attributed to the failure of these EDGs.

There are 23 reactors in the United States of the GE Mark I design[1], operated by 11 companies, none of which are in portfolios for which Pax World provides ESG research.[2] Nor does Pax own any of the companies that had significant NRC enforcement actions in the last three years.

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Pax World to Unveil Upgraded Web Site

Pax World will be unveiling an upgraded Web site in July. In addition to a redesigned look and feel, the most significant benefit the new site will offer to users will be greatly increased ease of navigation and search capabilities.

The new Paxworld.com will offer shareholders the ability to access additional fund information and materials, including white papers and more detailed data and characteristics. Check in for the new www.paxworld.com soon!

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Small Cap Opportunity: Too Big To Ignore?

By Nathan Moser, CFA, Pax World Small Cap Fund Portfolio Manager

Nathan Moser, CFA
Small Cap Fund
Portfolio Manager

On May 4, the Russell 2000 Index[1], the most widely used benchmark of U.S. small-cap stocks, hit an all-time high. In an interview with the Associated Press, Pax World Small Cap Fund Portfolio Manager Nathan Moser, CFA, commented that while small-caps have had a very strong run, and normal volatility suggests the market could retract, he believes that over the longer term, small-caps will continue to outperform.

Mr. Moser explores the drivers behind small-caps' long-term outperformance in a recent white paper entitled "Small-Cap Opportunity: Too Big To Ignore?" In the paper, he discusses the fact that, despite historical long-term outperformance by small-caps, many experts and market pundits continue to recommend an overweighting of large-cap stocks relative to small-cap stocks. "Their reasoning typically centers on large-caps' lower risk, inexpensive valuation and international exposure," explains Moser. In his report, he details his thoughts on why that reasoning may be flawed and highlights the drivers of what he believes will be small-caps' continued strong performance.

The Pax World Small Cap Fund focuses on high-quality companies with strong fundamentals, seeking particular value in innovative companies that are believed to be well-positioned to grow through all phases of the business cycle.

To learn more about the Fund or to read Mr. Moser's entire white paper, visit www.paxworld.com. ■

Equity investments are subject to market fluctuations, the fund's share price can fall because of weakness in the broad market, a particular industry, or specific holdings. Funds that emphasize investments in smaller companies generally will experience greater price volatility.

[1]The Russell 2000 Index is an index that measures the performance of the 2,000 smallest companies in the Russell 2000 Index.

[2]Associated Press, May 4, 2011.

CFA is a trademark owned by CFA Institute.

Past performance is no guarantee of future results.

Small Cap Fund (PXSCX) as of May 31, 2011

	3-year	Overall
Morningstar Rating™ (Small Growth Funds)	★★★★ (672 Funds)	★★★★ (672 Funds)

Morningstar Ratings as of 5/31/11 based on risk adjusted returns.

Morningstar Ratings™ are based on risk-adjusted 3-, 5-, and 10-year (if applicable) returns, and past performance is no guarantee of future results. The Overall Morningstar Rating™ for a fund is derived from a weighted average of the performance figures associated with its 3-, 5, and 10-year Morningstar Rating™ metrics. Ratings are subject to change every month. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.)

Today's Environmental Markets May Offer Strong Growth Opportunities

Environmental markets comprise more than 8% of the world's industrial base and generate approximately $500 billion in annual revenues[1]. Powerful economic and regulatory momentum is helping to create potential long-term growth opportunities across the renewable energy and energy efficiency, water treatment and infrastructure, pollution control, environmental services and waste management subsectors of environmental markets.

To help investors better understand potential environmental markets investment opportunities, Pax World and Impax Asset Management, sub-advisor to the Pax World Global Green Fund, recently wrote a new paper entitled "Investing in Environmental Markets—an opportunity too timely to ignore?" The paper provides an overview of environmental markets with detailed information on energy, water and waste. To download the paper, and learn more about the Pax World Global Green Fund, visit www.paxworld.com/globalgreen. ■

Equity investments are subject to market fluctuations, and 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.

Past performance is no guarantee of future results.

[1]Aggregate revenue calculated using Impax's proprietary investment universe.

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Pax World White Paper Makes Case for International Investing

Ivka Kalus-Bystricky, International Fund Portfolio Manager

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

Over the years, the attitude in the United States towards international investing has waxed and waned, typically coinciding with investment returns and U.S. domestic confidence relative to the rest of the world. And over the past 10 years international stocks have outperformed domestic stocks by over 25% in total based on cumulative returns.[1] Non-U.S. markets represent about 60% of the total global equity market.[2] But typical international allocations, from my observation, range from just 5%-15%.

In today's volatile and increasingly regionally differentiated market environment, U.S.-based investors often prefer to invest in the U.S. because it seems most familiar, rather than venture into the seemingly murky world of foreign sovereign and currency risk. This comfort of investing domestically is the primary tenet of the phenomenon known as "Home Country Bias." There are three main misperceptions behind this tendency, each with its own challenges and complexities. In my recent white paper "The New World of Global Investing," I examine some of the more common misperceptions about investing internationally—and truths behind them.

Investing internationally involves complex decision making. Attaining positive investment returns requires an investor to choose the right securities in the right sectors, and the right regions. And it is exactly this multi-dimensional decision-making puzzle that can present a diverse set of investment opportunities to the U.S.-based investor.

"Over the past 10 years international stocks have outperformed domestic stocks by over 25% in total based on cumulative returns.[1]"

The Pax World International Fund seeks to invest in non-U.S. companies with strong and improving financial results, competitive positioning and the potential to weather market cycles. Our investment team seeks to invest in companies in regions, sectors and industries believed to offer strong growth prospects. Top-down global economic analysis is performed to identify regions, sectors, industries and individual securities that we believe will derive a disproportionate percentage of revenue from identified macro economic growth drivers. Bottom-up financial analysis is performed to identify companies believed to have strong growth characteristics and competitive positioning and improving financial results.

For more information on the Pax World International Fund and to download the white paper, visit www.paxworld.com. ■

An investment in the Fund involves risk, including loss of principal. 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.

[1]Source: Factset. Total returns for MSCI EAFE Index and S&P 500 Index from 12/31/00-12/31/10. 10-year cumulative returns through December 31, 2010 are +41% MSCI EAFE Index vs. +15% S&P 500 Index. The S&P 500 Index is an unmanaged index of large capitalization common stocks. Investors cannot invest directly in any index. The MSCI EAFE (Europe, Australasia, Far East) Index (EAFE) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI EAFE Index consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. Investors cannot invest directly in any index.

[2]Id

Past performance is no guarantee of future results.

International Fund (PXINX) as of May 31, 2011

	3-year	Overall
Morningstar Rating™ (Foreign Large Blend Funds)	★★★★ (705 Funds)	★★★★ (705 Funds)

Morningstar Ratings as of 5/31/11 based on risk adjusted returns.

Morningstar Ratings™ are based on risk-adjusted 3-, 5-, and 10-year (if applicable) returns, and past performance is no guarantee of future results. The Overall Morningstar Rating™ for a fund is derived from a weighted average of the performance figures associated with its 3-, 5, and 10-year Morningstar Rating™ metrics. Ratings are subject to change every month. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.)

Pax World Urges Institutional Investors to "Just Say No To All-Male Corporate Boards"

In 2010, for the first time ever, women outnumbered men on the nation's payrolls.[1] And while that's good news for women in the workplace, the unfortunate truth is that women are still facing many challenges climbing the corporate ladder. According to a recent Catalyst study, women hold only 15 percent of the board positions among Fortune 500 companies.[2]

At Pax World, we recently launched a new campaign to promote greater gender diversity on corporate boards by urging investors to withhold support from corporate proxy slates that do not include women directors. In a letter to some 165 mutual fund CEOs, pension fund fiduciaries and women's colleges and universities, Pax President and CEO Joe Keefe urged institutional investors to adopt proxy voting policies, like those used by Pax World and other sustainable investment firms, which require gender diversity before an affirmative vote will be cast for corporate board slates.

"[G]ender diversity has positive financial consequences," writes Keefe, and his letter details steps being taken in many countries to improve gender diversity on corporate boards while charging that "the U.S. lags behind."

In the letter Keefe explained that "investors have been part of the problem rather than part of the solution. After all, it is the companies' shareholders who elect these non-diverse boards each year when they vote on corporate proxy ballots. Too often these ballots are cast down the line with management's recommendations, including blanket approval of director nominees, which means, in most cases, either no women or a slate of nominees where women are grossly under-represented."

"It is time to change this dynamic," says Keefe. "It is time for investors to weigh in and make a difference."

Details about the campaign are available on Pax World's Web site (www.paxworld.com).

At Pax World, we seek to promote gender equality through our family of mutual funds, including the Pax World Global Women's Equality Fund (PXWEX), the only mutual fund in America that focuses on investing in companies around the world that are leaders in advancing gender equality and women's empowerment in the workplace and beyond. To learn more, visit www.paxworld.com.

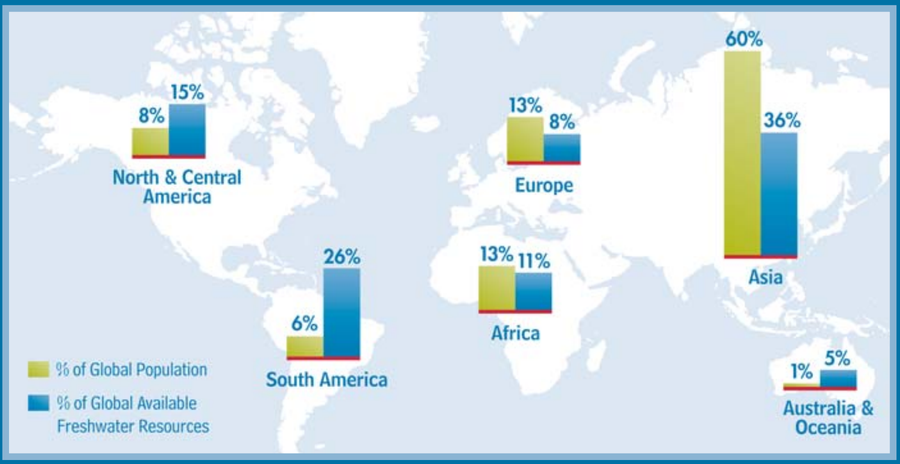
[1]U.S. Bureau of Labor Statistics, February 2010 Report

[2]Catalyst, "US Women in Business," June 2010.

Global Water Supply/Demand Imbalance Creates Potential Investment Opportunity

Experts predict that water scarcity is set to become the most critical global resource problem in the next two decades, with 50% of the world's population predicted to be living in areas of high water stress by 2030.[1]

[1] U.S. Environmental Protection Agency presentation, page 4 http://tinyurl.com/3vabhmg



Source: Water availability per capita, World Water Development Report 2, 2006

That said, we do own some utilities or energy companies that include nuclear power in their energy mix. While we do not see nuclear power as a long-term solution to the world's energy needs—at least until there are radical changes in technology that adequately address its inherent risks—most utilities generally do not specialize in a single fuel source. A typical utility operates several different types of plants and absolutely all of them carry risks. The best option for the long run is truly renewable energy, but according to the Renewable Energy Policy Network's 2010 Global Status Report, renewables now account for just 18% of the world's electricity[3]. In assessing companies for our actively managed funds, Pax carefully considers the fuel mix of any utility or independent power producer; while we do not automatically avoid all utilities that have nuclear in the mix, we do seek to invest in those that are most committed to the deployment of renewable energy and reducing greenhouse gas emissions.

Our current criteria for investing in companies that own or operate nuclear power plants are that we will:

1. Not invest in companies that operate new nuclear power plants until and unless concerns over safety, weapons proliferation, fuel storage and disposal are significantly diminished.

"As a result of the Fukushima Daiichi disaster, Pax World has conducted a review of the safety conditions of nuclear power globally."

2. Not invest in companies for which nuclear power constitutes more than 50% of baseload capacity or is the largest share of baseload capacity.

3. Assess the following when considering a company with involvement in nuclear power:

    a. The company's safety record;
    b. The company's overall fuel mix;
    c. The company's stance on public policy toward climate change and energy restructuring;
    d. Actions and policies addressing current emissions.

A black swan is a highly improbable event with three principal characteristics: it is unpredictable; it carries a massive impact; and, after the fact, we concoct an explanation that makes it appear less random, more predictable. Japan's earthquake was the blackest of swans. The Fukushima plant was particularly vulnerable to disaster: Japan is in a seismically active zone. But all nuclear power facilities must have access to water for cooling, and these can be vulnerable to the destructive power of water, through flooding or storm surges.

We believe that responsible authorities should take steps to increase preparedness for the possibility of a natural disaster escalating into a man-made one if there is a nuclear reactor nearby. A recent audit by the NRC's Inspector General found at least 24 instances in which possible equipment defects were not reported, although they had been identified, between December 2009 and September 2010[4].

As the analysis of the causes of failure at Fukushima Daiichi progresses, Pax will monitor it, and take appropriate action. Vigilance is a critical component of Sustainable Investing, and a responsibility that we need to take seriously. ■

[1]Nuclear Information and Resource Service, "General Electric Mark I reactors in the United States," 2011. Available at www.nirs.org.

[2]In addition to our actively managed funds, Pax currently offers two ETFs for which we do not suppy the ESG research: the Pax MSCI North America ESG Index ETF; and the Pax MSCI EAFE ESG Index ETF.

[3]Source: Renewable Energy Policy Network for the 21st Century (REN21). Renewables 2010 Global Status Report, Page 9.

[4]Office of the Inspector General, U.S. Nuclear Regulatory Commission, "Audit of NRC's Implementation of 10 CRF Part 21, Reporting of Defects and Noncompliance," OIG-11-A-08, March 23, 2011.

Julie Fox Gorte, Ph.D. is the Senior Vice President for Sustainable Investing at Pax World where 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, the Endangered Species Coalition, and the Pinchot Institute. She serves as the co-chair of the Asset Management Working Group of the United Nations Environment Programme Finance Initiatives, and is on the steering committee for UNEP's workstream on biodiversity. Dr. Gorte served as a member of the Adaptation and Response Working Group of the Maryland Climate Commission.

Shareholder Corner

The Benefits of an Automatic Investment Plan

Don't neglect your investment portfolio during the busy summer months. Ensure your savings are taken care of year-round with an Automatic Investment Plan (AIP). An AIP allows you to invest a designated dollar amount on regular intervals. When you "set it and forget it" you can potentially take advantage of three important benefits:

- You "pay yourself first" rather than using that money for other things.
- You may reduce your average cost basis over time because you buy more shares when the price is low and fewer shares when the price is high, a concept known as dollar cost averaging.
- The power of compounding[1] has more time to work because you don't delay your investments while waiting for the right time to invest.

You can set up a Pax World AIP online or contact Shareholder Services at 800.372.7827 to obtain an Optional Account Services form.

[1]Compounding is the ability of an asset to generate earnings, which are then reinvested in order to generate their own earnings.

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.

Pax World Updates Electronic Transaction Options

Pax World has updated electronic transaction options on eligible fund accounts. Previously, telephone and online purchases, exchanges or redemptions required shareholder activation. Going forward, this convenient option will be automatically available on all accounts.

Certain transactions, such as electronic purchase of shares, require linking a bank account to your Pax World mutual fund account. You can do this by completing the Optional Account Services Form found on our Web site, www.paxworld.com. Once this link is established, you can place a purchase by telephone or online through the Account Access link on our home page.

To request the Optional Account Services Form, to opt-out of this new functionality or for additional information, contact Shareholder Services at 800.372.7827 (8am to 6pm ET Monday – Friday); info@paxworld.com; or Pax World, PO Box 9824, Providence, RI 02940-8024.

**Retirement plan accounts such as SIMPLE IRAs and 403(b) accounts are not eligible for this option. SEP IRA accounts holders can place transactions by telephone, but not online.*

Help Save a Tree; Sign-up for E-Delivery

If you are not already receiving account statements and documents electronically, consider doing so.

It's easy to sign-up today. Simply go to www.paxworld.com and login to Account Access, choose E-Delivery from the Account Options menu at the top, and follow the on-screen instructions.

Important Disclosures Please Read

Before investing in a Pax World Mutual Fund you should carefully consider the fund's objectives, risks, charges and expenses. For this and other important information, please obtain a Fund prospectus by calling 800.767.1729. Please read the prospectus carefully before investing.

The value of the Fund's investments will vary from day to day in response to the activities of individual companies and general market and economic conditions.