

INSIDE

HIGH-YIELD BOND MARKET
TURNAROUND PRESENTS
INVESTMENT OPPORTUNITIES

INNOVATIVE UNIVERSITY
SUSTAINABILITY PROGRAM
MAKES A DIFFERENCE

WADZANAI KATSANDE:
CHAMPION OF GIRLS'
EMPOWERMENT IN AFRICA

GENDER EQUALITY AS AN
INVESTMENT CONCEPT
GAINS MOMENTUM

KEEP YOUR RETIREMENT ON
TRACK WITH PAX WORLD
FUNDS

PAX WORLD UPDATES WEB
SITE WITH SUSTAINABLE
INVESTING APPROACH

Three Newest Pax World Funds Deliver Competitive One-Year Results

Three Pax World funds marked their one-year anniversaries in March with strong Lipper Peer Group rankings.

For the one-year period ended March 31, 2009, the Pax World Small Cap Fund and the Pax World International Fund each ranked in the top 11 percentile among 758 small-cap core funds and 282 international large-cap core funds, respectively, according to Lipper.^{1,2} For the same time period, the Pax World Global Green Fund ranked in the top 29 percentile among 70 global small/mid cap funds, according to Lipper.³ Lipper rankings are based on total returns. During this time period the Funds experienced negative performance.

Each of the three new funds follows Pax World's Sustainable Investing approach, focusing on the full integration of environmental, social and governance (ESG) factors into investment analysis and decision making. In Pax World's view, this process

helps its fund managers identify companies that are more forward-thinking and acting, better at managing risk, meet positive standards of corporate social responsibility and are focused on the long term.

"We are very pleased that our three new funds have compared favorably to their peers during their first year, as difficult as that year has been," said Pax World President and CEO Joe Keefe. "As the market recovers, we strongly believe that Sustainable Investing, which focuses on the long term, will have much to offer investors who are concerned about factors such as excessive leverage, excessive risk taking and outlandish executive compensation, which helped cause this crisis."

The Pax World Small Cap Fund's investment objective is to seek long-term growth of

CONTINUED ON PAGE 4

© 2009 Pax World Management Corp.
30 Penhallow Street, Suite 400
Portsmouth, NH 03801

Editor Donna Marsh
Layout Dorset Norby

General Fund Information:
☎ 800.767.1729

Shareholder Account Information:
☎ 800.372.7827

www.paxworld.com



Mixed Sources
Product group from well-managed
forests and recycled wood or fiber
www.fsc.org Cert no. SW-COC-1896
© 1996 Forest Stewardship Council

PAX000380 (10/09)



"Say on Pay" Resolutions Provide Shareholders with a Voice

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

Americans have become outraged in recent months toward the companies whose missteps were most responsible for the current financial and economic crisis but still reward their executives with bonuses and other lavish perks. And in many cases, the outrage has been compounded

by a sense of impotence: besides venting, what can be done about it?

This year, all over the United States, investor networks introduced numerous "Say on Pay" shareowner resolutions—shareholder-sponsored resolutions that requested that a

CONTINUED ON PAGE 4



High-Yield Bond Market Turnaround Presents Investment Opportunities

An interview with Pax World High Yield Bond Fund Portfolio Manager Mary Austin

High-yield bonds, as measured by the JP Morgan Global High Yield Index¹, returned 6.5% in May, and 25.2% year-to-date as of May 31, 2009. But is this rally sustainable? Connection talked with Mary Austin, CFA², portfolio manager of the Pax World High Yield Bond Fund, about recent developments and opportunities in the high-yield bond market.

What's going on in the high-yield market right now?

Traders have a saying “en fuego” or on fire, to describe the current high-yield bond market whose performance has nearly wiped out all of last year’s losses.³ Lower quality debt that was hit the hardest in 2008 has rebounded the most, and the new issue market has been very strong after a long hiatus that began in August 2008.

What does this mean for investors interested in this area of the market?

Judging by the amount of money pouring into high-yield mutual funds — nearly \$10 billion YTD, it appears that investors may have recognized the value of the asset class in the current economic slowdown. The high-yield market had its worst year last year causing high-yield spreads (spreads are a good indicator of risk) to reach historic highs.

Although spreads have tightened almost 800 basis points⁴ since last December’s high they are still about level with the near 1100 basis points peak in September 2002. What this tells me is that there is potential room for upside as spreads may tighten more. Even if the market moves sideways, I believe yields are still very attractive and are providing good income for investors. For example, on 5/31/09 the yield for the JP Morgan High Yield Index was 13.5%.

How has the Fund fared during this challenging economic environment?

The Fund has delivered year-to-date returns of 19.6% as of May 31. Although we significantly outperformed the Fund’s Index in the first quarter, our performance has lagged our peers since the March rally. This was mostly due to our underweighting of CCC⁵ and lower rated bonds that have returned 39.5% year-to-date versus only 19.6% for single B paper⁶.

The Fund’s strategy has generally been more conservative than its peers and we believe this will benefit us long term. Defaults are on the rise and Moody’s, a leading provider of credit ratings, expects them to reach 15% by year-end. We believe we are well positioned as CCC rated debt is estimated to have a 50% default rate and, so far, recovery rates have fallen to 20.1% versus their historic average of 36.7%.

What is your outlook for the high-yield market?

I feel the market could experience some volatility in the short term as the reality of increasing defaults, weakening home prices and rising unemployment could set in. That being said, we continue to believe that the high yield space offers attractive investment opportunities. The higher yields provide good income for investors and the asset class has shown itself to be more defensive during the last two recessionary periods. ■

FUND PERFORMANCE as of March 31, 2009

RETURNS (%) ⁷	Cumulative Return (%)		Average Annual Return (%)		
	YTD	1-year	3-year	5-year	Since Inception
Pax World High Yield Bond Fund (PAXHX)	8.97	-11.90	-0.64	2.02	3.25
Merrill Lynch High Yield Master I Index ⁸	5.26	-19.95	-4.85	-0.26	2.92

Inception date is 10/8/99. Performance data quoted represent past performance, which does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For most recent month-end performance information visit www.paxworld.com.

Total annual High Yield Bond Fund operating expenses, gross of any fee waivers or reimbursements, are 1.19% for the Individual Class shares. Total annual Fund operating expenses, net of any fee waivers or reimbursements, are 0.99%. Fee waivers and reimbursements are in effect until at least 12/31/2012.

Information contained in this article should not be considered investment advice. Please consult your financial advisor.

¹The JPMorgan Global High Yield Index is designed to mirror the investable universe of the U.S. dollar global high yield corporate debt market, including domestic and international issues.

²CFA® is a trademark owned by CFA Institute.

³J.P. Morgan North American High Yield Research, High-Yield Market Monitor, June 2, 2009.

⁴Basis point is defined as one one-hundredth of a percent, used in measuring yield differences among bonds. You cannot invest directly in an index.

⁵CCC is a Standard and Poor’s rating. Obligation rated ‘CCC’ are currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

⁶B is a Standard and Poor’s rating. Obligations rated ‘B’ are more vulnerable to nonpayment than obligations rated ‘BB’, but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor’s capacity or willingness to meet its financial commitment on the obligation.

⁷Figures include reinvested dividends, capital gains distributions, and changes in principal value. 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.

⁸The Merrill Lynch High Yield Master I Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. One cannot invest directly in an index.

By investing in high yield bonds you generally will be subjected to greater price volatility based on fluctuations in issuer and credit quality. When investing in bonds, you are subject, but not limited to, the same interest rate, inflation and credit risks associated with the underlying bonds owned by the Fund.

There is no assurance that any investment or strategy will be successful in achieving investment objectives.

Innovative University Sustainability Program Makes a Difference

Pax World Management Corp. pledged \$50,000 over three years towards the establishment of an endowed scholarship fund at Southern New Hampshire University's (SNHU) School of Community Economic Development (SCED). The Pax Scholarship Fund for Sustainable Development was created in 2007 to defray tuition costs for women graduate students from African nations who are working to create participatory, sustainable and transformative community-based economic development projects.

SCED advocates community development as a strategy for correcting socioeconomic inequality, playing a critical role on both a national and international level. The school has been instrumental in helping effect change in marginalized communities across the United States and in developing countries.

Students enrolled at SCED come from around the world to study community economic development. According to SNHU, 58 percent of its international students come from Africa, 21 percent from Asia, 10.5 percent from Latin America and the Caribbean and 10.5

percent from North America.

“By providing scholarships to women graduate students from African nations, and supporting the innovative, groundbreaking programs at the School for Community Economic Development, we hope to advance the status of women and promote gender equality while making a small contribution toward alleviating poverty and promoting economic development in some of the world's poorest regions,” said Joe Keefe, president and CEO of Pax World.

Once fully funded, the scholarship will be presented annually to an eligible female student or students from Africa who demonstrate leadership and creativity in promoting progressive economic development policies and practices and strive to achieve transparency, inclusiveness and impact in their projects.

SCED is internationally recognized as a center of excellence and a leader in education, public policy, research and institution-building. SNHU is a leader in sustainable business practices,

Pax Scholarship Fund for Sustainable Development

The Pax Scholarship Fund for Sustainable Development was created to defray tuition costs for women graduate students from African nations who are working to create participatory, sustainable and transformative community-based economic development projects.

Individuals, corporations and organizations wishing to contribute to the Pax Scholarship Fund or obtain more information can contact Don Brezinski, Southern New Hampshire University's vice president for institutional advancement at 603.645.3109 or d.brezinski@snhu.edu

and was the first university in New Hampshire to become carbon neutral. ■



A Champion of Girls' Empowerment in Africa

When Wadzanai Katsande returned home after her first term at Southern New Hampshire University (SNHU), the majority of her fellow Zimbabweans were struggling to make ends meet, with 230% hyper-inflation, a collapsed currency, over 80% unemployment and an HIV/AIDS epidemic infecting 25% of the population. Wadzi's dedication and perseverance enabled her to complete her master's research project documenting violence and abuse in child-headed homes affected or infected by HIV/AIDS and to act to reduce it.

Wadzi's passion to improve the lives of African children led this 43-year old mother and development practitioner to the School of Community Economic Development's (SCED) master's program. She came to SNHU after working with the poor and refugees for 20 years to learn how community economic development could be put to effective use in the developing world. During her last term, Wadzi secured a grant from WomenWin, a Dutch NGO, for a project aimed at healing and empowering AIDS orphans through sport. One year after graduation, Wadzi is executive director of Edmund Garwe Trust, an NGO she created to empower child-headed homes to combat the disenfranchisement caused by HIV/AIDS.

capital by investing in small companies with attractive valuations and growth prospects and strong management teams that exhibit a high degree of innovation and motivation to grow their business.

According to the Portfolio Manager Nathan Moser, the Small Cap Fund's positioning in high-quality companies offering defensive growth was the primary driver of its first-year results. "With credit markets still under pressure, we continue to add to holdings with strong balance sheets and steady cash flows—which we believe will help them weather the current economic volatility," explained Moser.

The Pax World International Fund's investment objective is to seek long-term growth of capital by investing in companies outside of the United States.

During its first year, the Pax World International Fund benefited both from allocation decisions as well as stock selection, explained Portfolio Manager Ivka Kalus-Bystricky. "Our

underweight position in the financial sector, along with a focus on companies in the sector with strong balance sheets and relative immunity from the global credit crisis, provided the largest amount of relative performance. The Fund also benefited from large positions in the outperforming Japanese market and the Japanese yen."

The Pax World Global Green Fund invests in companies whose businesses focus on environmental markets, including alternative energy and energy efficiency; water treatment and pollution control; and waste technology and resource management. The Fund is sub-advised by Impax Asset Management, a London-based specialist environmental asset manager.

"Due to the well-diversified structure of the portfolio, which offers investors exposure to renewable energy and energy efficiency companies, as well as waste and water companies, the Pax World Global Green Fund has performed relatively well in its first year," said Impax Portfolio Manager

and Investment Director, Bruce Jenkyn-Jones. "As the Global Green Fund enters its second year, several of the stimulus measures being put in place, especially in the United States and China, have environmental issues very much at their core, which we believe will likely benefit selected portfolio holdings directly." ■

¹The Pax World Small Cap Fund ranked in the top 11 percentile out of 758 funds for the 1-Year period ended March 31, 2009, and top 12 percentile out of 752 funds since inception (March 27, 2008), according to Lipper. Lipper rankings are based on total returns (not including sales charges) for the periods indicated and compare total return performance with that of other funds in the category.

²The Pax World International Fund ranked in the top 11 percentile out of 282 funds for the 1-Year period ended March 31, 2009, and top 15 percentile out of 280 funds since inception (March 27, 2008), according to Lipper. Lipper rankings are based on total returns (not including sales charges) for the periods indicated and compare total return performance with that of other funds in the category.

³The Pax World Global Green Fund ranked in the top 29 percentile out of 70 funds for the 1-Year period ended March 31, 2009, and top 30 percentile out of 70 funds since inception (March 27, 2008), according to Lipper. Lipper rankings are based on total returns (not including sales charges) for the periods indicated and compare total return performance with that of other funds in the category.

Past performance is no guarantee of future results.

company provide for annual shareholder votes on executive compensation. There have been over 100 Say on Pay resolutions filed for the 2009 proxy season (Pax World has co-filed two Say on Pay shareholder resolutions in 2009), and as of mid-April ten had passed, and the average level of support was 43%—a very high figure, considering that until recently shareholder proposals rarely garnered double-digit support.

Historically, very few companies asked their shareholders for input on executive compensation. Now, companies that

receive assistance from the Troubled Asset Relief Program (TARP) are required to submit to their shareholders a nonbinding, management-sponsored resolution to approve executive compensation. Most of these management-sponsored proposals have passed (that is, the proposals have been accepted by shareholders), but given how proxy votes are cast and counted in the United States, that was expected. Many companies that received TARP funds have curtailed executive compensation packages, which is certainly a factor in the success of most

of these management-sponsored executive compensation proposals.

Despite the success of most TARP companies' executive compensation proposals, popular dissatisfaction with inflated executive compensation remains, and Say on Pay is likely to continue to gain ground. Pax World will likely vote in favor of Say on Pay proposals and we believe it is in shareholders' best interest to generally vote in favor of shareholder-sponsored resolutions requesting an advisory vote on executive compensation. ■

Gender Equality as an Investment Concept Gains Momentum

On May 8, 2009, Pax World and Demos, a national, non-partisan public policy center, along with several other women's interest organizations, hosted the second "Gender Equality as an Investment Concept" event held in Washington, D.C. The event was part of Demos' ongoing Women's Leadership Initiative Series, which highlights the importance of women's equality and leadership in securing economic prosperity and building a strong democracy. Featuring prominent political leaders, advocates and scholars, the series seeks to increase awareness of women and women's advancement.

Eighty people attended the event which featured prominent leaders and experts on women's issues, including Pax World's President and CEO Joe Keefe and Senior Vice President for Sustainable Investing Julie Gorte, Ph.D. In addition to Pax World and Demos, sponsors included Women Thrive Worldwide, the National Council for Research on Women and the National Council of Women's Organizations.

"Investors often do not realize the power they have to move the needle on issues like gender empowerment. Every investor—and most of us are investors, if we have retirement plans—can tell their portfolio manager or plan administrator that they wish to vote their proxies in favor of gender equity, which means voting for shareholder resolutions on diversity disclosure and withholding votes from all-male boards of directors," said Joe Keefe.

In addition, Mr. Keefe stressed the importance of gender equality as an indicator of economic development as

well as an enabler of private enterprise. Ms. Gorte discussed the correlation between gender equality and financial performance, economic well-being and quality of earnings.

Each panelist provided insight on how the organizations they represent are working to further women's issues. Anne Black, vice president and member of the Corporate Engagement team at Goldman Sachs, discussed the firm's 10,000 Women Initiative, a five-year investment by Goldman Sachs to train 10,000 underserved women around the world.

Amanda Ellis, lead specialist of the Gender Action Plan at the World Bank, discussed gender empowerment initiatives sponsored by the World Bank, including creating a global private sector leaders forum, improving the integration of gender equality into its agriculture and rural developments projects; and the channeling of at least \$100M in credit lines at commercial banks for women entrepreneurs.

Ritu Sharma, co-founder and CEO of Women Thrive Worldwide, talked about the urgent need for development finance in underdeveloped areas, particularly in water and energy infrastructure, which typically promote gender empowerment as they tend to benefit large numbers of underprivileged women. ■

¹David 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.

²Gopal V. Krishnan and Linda M. Parsons, "Getting to the Bottom Line: An Exploration of Gender and Earnings Quality," *George Mason University*.

³Source: Catalyst study, "The Bottom Line: Connecting Corporate Performance and Women's Representation on Boards."

Impact of Gender on Financial Performance

Several studies that have examined the relationship between gender equality and financial performance generally conclude that the relationship is positive. And while most do not examine causality, one that did concluded that financial outperformance resulted from board diversity.¹ One study concluded that significant representation of women in senior management and among directors was positively associated with superior quality of earnings.²

A recent Catalyst study found that companies in five industries with the most women in management outperformed those with the least in these financial areas³:

Return on Equity:

Companies with more women on board of directors (WBD) outperform those with the least by 53%.

Return on Sales:

Companies with more WBD outperform those with the least by 42%.

Return on Invested Capital:

Companies with more WBD outperform those with the least by 66%.

The study also found that the link between Women on Board of Directors and corporate performance holds across industries.

Pax World's Women's Equity Fund is the only mutual fund in the U.S. whose focus is on investing in companies that invest in women. Learn more at www.paxworld.com/womensequity

Shareholder Corner

Keep Your Retirement on Track with Pax World Funds

Recent challenging economic times have impacted virtually all Americans at some level. Many are faced with cash flow problems and potentially higher-than-anticipated levels of debt. It can be tempting to stop saving for retirement or even cash out retirement accounts such as 401(k)s or IRAs to make financial ends meet. But while it might appear to be a viable option today, using retirement funds for short-term cash flow needs can actually create more financial challenges over the long term. Putting retirement savings "on hold" for even a few years can substantially reduce the earning power of your money. See the hypothetical chart below to see the effect of taking a break from your retirement plan contribution.

Many financial advisors warn that

withdrawing cash from a tax-deferred retirement account such as an IRA or 401(k) plan should almost always be a last resort, because doing so can potentially create a large tax bill in addition to early distribution penalties. If you are experiencing short-term cash flow problems, consult a financial advisor before making any major decisions.

Pax World mutual funds are available for investment through a number of retirement plan service providers. Check with your human resources department to find out if the Pax World Funds are available in your 401(k) plan. Pax World also offers Roth IRAs and Traditional IRAs as well as SEP and SIMPLE IRAs for small businesses.

To learn how Pax World's Sustainable Investing approach can potentially help you reach your retirement goals, contact a Pax World representative at 800.767.1729.

Pax World Upgrades Sustainable Investing Section of Web Site

Pax World recently upgraded and expanded the Sustainable Investing section of its Web site. Eleven ESG Key Issue Briefs that detail the environmental, social and governance (ESG) criteria that are an integral part of Pax World investment process are included in the new section.

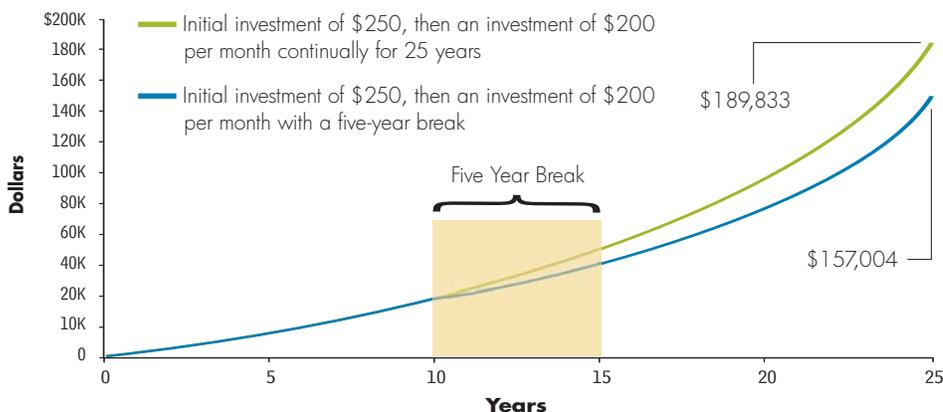
"Due to investor demand to better understand our investment analysis process, we wanted to provide more information on what we do and how we do it," explained Julie Gorte, Ph.D., Pax World senior vice president for sustainable investing. "Now investors looking for deeper insight into our ESG analysis have access to a valuable research tool."

Pax World's ESG criteria provide an additional layer of scrutiny in the investment analysis and decision making process. Below are the topics in the ESG Key Issues Briefs you can learn more about on the Pax World Web site:

- Environment
- Climate Change
- Community
- Diversity
- Gender Empowerment
- Human Rights
- Indigenous People's Welfare
- Labor Relations
- Product Safety and Integrity
- Workplace Health and Safety
- Corporate Governance

IT PAYS TO KEEP RETIREMENT SAVINGS ON TRACK

An investor who initially invests \$250, then \$200 a month, assuming an 8% average rate of return, will have \$189,833 at retirement in 25 years. A person who retires at the same time but stops contributing for just five years during that period will have \$157,004—a 17.3% difference.



This is a hypothetical illustration which assumes an 8% rate of return. It is not indicative of any Pax World Fund investment. Information contained in this chart is for informational purposes only and should not be considered investment advice. Please consult your financial advisor. Past performance is no guarantee of future results.

Source: Pax World Management Corp.

Important Disclosures Please Read

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

The principal risks of investing in the Pax World mutual funds include (i) price volatility, (ii) 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. Pax World Funds are distributed by ALPS Distributors, Inc., Member FINRA, www.finra.org