

INSIDE

THREE PAX WORLD FUNDS
OUTPERFORM INDEXES IN
2009

SHAREHOLDER ADVOCACY
MAKES A DIFFERENCE

PAX WORLD BALANCED
FUND MAINTAINS HIGH-
QUALITY APPROACH

SHAREHOLDER CORNER

Introducing ESG Managers™ Portfolios

Pax World has launched a new series of multi-manager asset allocation funds powered by Morningstar Associates and featuring some of the best known managers in the Sustainable Investing industry.

Pax World has joined with Morningstar Associates to create and manage this unique series of mutual funds. The new series, called ESG Managers™ Portfolios, are the first non-proprietary, multi-manager asset allocation portfolios consisting of investment managers who integrate environmental, social and governance (ESG) factors into investment analysis and decision making.

ESG Managers™ Portfolios consist of four asset allocation funds:

- **ESG Managers™ Aggressive Growth Portfolio**
- **ESG Managers™ Growth Portfolio**
- **ESG Managers™ Moderate Portfolio**
- **ESG Managers™ Conservative Portfolio**

Pax World is the investment adviser to ESG Managers™ Portfolios while Morningstar Associates is charged with manager selection, asset allocation and portfolio construction and monitoring. The investment managers selected by Morningstar Associates who will provide sub-advisory services to the funds include some of the best-known managers in the Sustainable Investing industry.

“Until today, mutual fund investors have never had a comprehensively constructed asset-allocation portfolio composed of many of the industry’s leading investment firms that incorporate ESG factors alongside fundamental financial factors in their security selection,” said Patrick Reinkemeyer, President of Morningstar Associates. “This is a first.”

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Addressing Climate Change Is Good for Business—and Investors

by Joseph F. Keefe, President and CEO

World leaders met late last year in Copenhagen to chart a global strategy on climate change, and the U.S. Congress hopefully will soon take up cap-and-trade legislation to reduce carbon emissions here at home. There is an urgent need to put a price on carbon so that markets and businesses can

not only plan for, but profit from, the transition from an industrial age economy powered by coal and oil to a sustainable economy powered by clean energy and energy efficiency. And the business community is increasingly supportive of such efforts.

As world leaders were gathering in Copenhagen,

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Shareholder Advocacy Makes a Difference

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

Over the past year, Pax World's Shareholder Advocacy efforts have yielded considerable success. Below are a few recent highlights.

Guidance on Climate Risks and Opportunities

A major highlight of Pax World's advocacy over the past year was the January 2010 vote of the Securities and Exchange Commission (SEC) to issue interpretive guidance on climate risk and opportunity disclosure.¹ Pax World was one of 22 institutional investment, nonprofit, and asset management institutions to petition the SEC to issue guidance on climate risk disclosure in 2007.

The petition asked the SEC to provide detailed guidance on how companies should be disclosing climate-related material risks to investors. In its groundbreaking decision issued in January 2010, the SEC stated that the guidance will provide assistance to companies in reporting several types of material impacts from climate change, including not only possible regulatory or litigation risk, but also the physical impacts of climate change and possible reputational impacts. SEC staff and commissioners pointed out that investors with substantial assets under management have been seeking such guidance for many years. The SEC noted that while it may be difficult for companies to decide whether a possible impact is material, the agency reiterated that this release is in keeping with the Supreme Court's language² noting that while doubts about materiality are "commonplace," doubts as to the significance of information to be included should be resolved in favor of investors—that is, if a particular impact

cannot be ruled out as being reasonably likely, it should be reported.

The SEC's action does not change existing laws on the reporting of material information, but it does signal that the agency believes that climate change can have material impacts on a wide variety of businesses, not only the big emitters that may be subject to national statutes limiting emissions. This helps investors make better-informed decisions on which companies are best positioned to take advantage of opportunities and manage risks of climate change.

Enhanced Proxy Disclosure

Another example of how our advocacy may affect many companies was our comment letter to the SEC last summer on enhanced proxy disclosure.³ In June of 2009, the SEC proposed several changes to proxy disclosure and opened a comment period. Pax World sent a letter supporting many of the changes that were eventually adopted by the SEC, when it issued a new rule in January 2010. Specifically, Pax World supported enhanced disclosure of links between compensation policies and material risks; director and nominee qualifications and legal proceedings; board leadership structure (including board diversity); transferring reporting of proxy voting results to Form 8-k, and potential conflicts of interest on the part of compensation consultants. While not everything that Pax urged the SEC to do was done, this new rule represents a significant step forward in proxy disclosure, and the rule cites Pax's letter



four times in explaining the basis for the rule changes.

Disclosure of Political Contributions

For the 2009 proxy season, Pax World co-filed a resolution with the Church of the Brethren at CVS⁴, requesting that the company make public its political contributions. This was part of a larger campaign in which many asset managers participated, urging companies to be more forthcoming about their political spending. As is usually the case, the board opposed the resolution, but it still garnered more than 39 percent of all shares voted. While the resolution did not pass, this strong support encouraged Pax World to refile the proposal for the 2010 proxy season as lead filer. We believe the issue is likely to attract substantially more attention in the wake of the Supreme Court's recent decision in the Citizens United case.⁵

At Pax World, we believe engaged shareowners can play an important role in improving the financial,

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for example, more than two-dozen major U.S. companies—including Dow Chemical, Microsoft, Nike, eBay, Sun Microsystems and Pacific Gas & Electric¹—sent a letter to President Obama encouraging him to secure a strong climate change agreement with significant emissions reduction targets and substantial new financing commitments from the United States and other developed nations.

Saying that “our environment and economy are at stake,” the letter called for forceful leadership to achieve a global climate deal and accelerate investments in clean technology deployment, job creation and enhanced U.S. competitiveness. “We must put the United States on the path to significant emissions reductions, a stronger economy and a new position of leadership to stabilize our climate,” the letter said. “The costs of inaction far outweigh the costs of action.”

Copenhagen is now concluded but in the coming months we can expect to see leading members of the U.S. business community supporting the Obama administration and Congress in efforts to cap and reduce greenhouse gas emissions.

It is curious, therefore, that the U.S. Chamber of Commerce, which ostensibly represents the business community, has not only chosen to oppose climate change solutions but continues to advance the specious argument that we face a stark choice between the environment and the economy—that addressing climate change will somehow be bad for business and cost us jobs. The opposite is the case. The Chamber seems to be out of touch with contemporary business and economic realities.

For years, Pax World has worked with other institutional investors in efforts to engage publicly traded companies and regulatory authorities on the issue of climate change. In 2007, for example, we were signatory to a petition to the Securities and Exchange Commission (SEC) requesting interpretive guidance on company reporting of climate risk. In January of this year, the SEC did precisely that, endorsing Pax’s longtime view that climate risk disclosure will benefit investors.

Pax was also a signatory to an international investor statement, released at the United Nations in mid-November, encouraging the world’s governments to reach a global agreement on climate change and reduced carbon emissions.

We participate in these initiatives, along with other institutional investors, for the very same reason that some of the nation’s largest electric power, manufacturing, technology and consumer-facing companies recently wrote to President Obama: because businesses, regulatory authorities and investors must be attentive to the financial risks as well as the tremendous financial opportunities associated with climate change solutions and the transition to a more sustainable energy economy. Addressing climate change will be good for business and good for investors, whereas failure to do so poses dire financial and economic risks.

This is not to say there won’t be costs. There will be—for the very simple reason that today there is no price on carbon. There needs to be if we are going to encourage energy efficiency and clean energy technologies and usher in the next great era of economic growth. But the upfront costs of carbon mitigation



will be far outweighed by the long-term economic and environmental benefits.

The Chamber of Commerce is dead wrong on climate change, and dead wrong on cap-and-trade legislation. The Chamber may speak for a small subset of the business community but it does not speak for the business community as a whole. Its agenda seems to be more of a political agenda than a business agenda. By contrast, many local chambers of commerce across the country, being more practical and less ideological, clearly understand the economics of addressing climate change and are hard at work on local strategies.

Putting a price on carbon and capping emissions will not only help avert the costs of a looming climate disaster but will make businesses more efficient and help catalyze a green technology revolution; it will benefit businesses, investors, consumers and the planet.

The statements expressed are those of the authors.

¹Dow Chemical, eBay, Sun Microsystems and Pacific Gas & Electric are not currently held by the Funds. Microsoft represents 1.2% of Balanced Fund, 1.1% of Growth Fund and 1.5% of Women’s Equity Fund. Nike represents 1.5% of Growth Fund. Holdings are as of 12/31/09 and are subject to change.

environmental, social and corporate governance performance of the companies in their portfolios. Our shareowner advocacy efforts are aimed at helping the companies we invest in limit their ESG-related liabilities and take advantage of ESG-related opportunities to create financial

value for their shareholders over the long term.

For more information and updates on Pax World's Shareholder Activism initiatives, visit:

www.paxworld.com/investment-approach/shareowner-activism/

¹Securities and Exchange Commission, "Commission Guidance Regarding Disclosure Related to Climate Change; Final Rule," Federal Register 17 CFR Parts 211, 231 and 241, Monday, Feb. 8, 2010.

²Commissioner Luis Aguilar, in a speech, explained the Supreme Court's interpretation of materiality as follows: "In the leading case on materiality, TSC Industries, Inc. v. Northway, Inc., the Court recognized that doubts as to materiality of information would be commonplace, but that, particularly in view of the prophylactic purpose of the securities laws and the fact that disclosure is within management's control, "it is appropriate that these doubts be resolved in favor of those the statute is designed to protect." TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438, 448 (1976)." Luis Aguilar, "Speech by SEC Commissioner: Responding to Investors' Requests for SEC Guidance on Disclosures of Risks Related to Climate Change," Washington DC, January 27, 2010, posted at www.sec.gov/news/speech/2010/spch012710laa-climate.htm#foot2.

³Securities and Exchange Commission, "Proxy Disclosure Enhancements," Federal Register 17 CFR Parts 229, 239, 240, 249 and 274, December 23, 2009.

⁴CVS: Balanced 0.7% & Growth 0.9% as of 12/31/2009. Holdings are subject to change.

⁵Supreme Court of the United States, "Citizens United v. Federal Election Commission," Syllabus, posted at www.supremecourtus.gov/opinions/09pdf/08-205.pdf.

THREE NEWEST FUNDS CONTINUED FROM PAGE 3

"The Pax World Small Cap Fund's positioning in defensive growth companies and active management of our sector weightings were the primary drivers of our results this year," said Pax World Small Cap Fund Portfolio Manager Nathan Moser, CFA®. "In

addition, several of our portfolio holdings were acquired as the merger and acquisition environment improved."

Visit www.paxworld.com for more information.

³The MSCI EAFE (Europe, Australasia, Far East) Index is an unmanaged index and is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada. As of June 2007 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. Performance for the MSCI EAFE Index is shown "net", which includes dividend reinvestments after deduction of foreign withholding tax.

⁴The MSCI World Index is an unmanaged index and is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of June 2007 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Performance for the MSCI World Index is shown "net", which includes dividend reinvestments after deduction of foreign withholding tax.

⁵The FTSE Environmental Opportunities Index measures the performance of global companies that have significant involvement in environmental business activities, including renewable and alternative energy, energy efficiency, water technology and waste & pollution control. The FTSE Environmental Opportunities Index Series requires companies to have at least 20% of their business derived from environmental markets and technologies. The FTSE Environmental Opportunities Index Series is published by a joint venture of Impax Asset Management, Ltd. ("Impax") with FTSE International. Impax is also the sub-adviser to the Pax World Global Green Fund.

⁶The Russell 2000 Index is an unmanaged index and measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

Investors cannot invest directly in an index.

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You should consider Pax World Mutual Funds investment objectives, risks, and charges and expenses carefully before investing. Funds that emphasize investments in smaller companies generally experience greater price volatility. Foreign investing involves special risks such as currency fluctuations and political uncertainty.

Investment firms currently providing sub-advisory services to the ESG Managers™ Portfolios include:

- Access Capital Strategies
- Ariel Investments
- ClearBridge Advisers
- Community Capital Management
- Impax Asset Management
- Miller/Howard Investments
- MMA Capital Management
- Neuberger Berman
- Parnassus Investments
- Pax World Management LLC
- Portfolio 21 Investments

ESG Managers™ Portfolios are available only through registered investment advisors.

To learn more about ESG Managers™ Portfolios, visit www.esgmanagers.com

ESG MANAGERS™ PORTFOLIOS

ESG Manager® Portfolios are new and have limited operating history.

You should consider ESG Managers™ Portfolios' investment objectives, risks, and charges and expenses carefully before investing. For this and other important information, please obtain a fund prospectus by calling 877.374.7678. Please read it carefully before investing.

Pax World Management LLC is the investment adviser to the ESG Managers™ Portfolios. Morningstar Associates, LLC, a registered investment advisor and wholly owned subsidiary of Morningstar, Inc., serves as portfolio construction adviser to the ESG Managers™ Portfolios responsible for manager selection, asset allocation, portfolio construction and monitoring, but does not serve in the capacity of investment advisor to individual investors. The Morningstar name and logo are the property of Morningstar, Inc. Morningstar is not affiliated with Pax World Management LLC.

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ESG Managers™ Portfolios are multi-manager funds, which are a mix of underlying Sleeve Subadviser portfolios. The Funds' allocations may change due to market fluctuations and other factors.

Three New Pax World Funds Outperform Indexes in 2009

In response to increased customer demand for mutual funds that follow a Sustainable Investing approach, Pax World launched the Global Green, International, and Small Cap Funds on March 27, 2008. For the one-year period ended December 31, 2009, all three funds outperformed their benchmark indexes. See table at right.

“We continue to be very pleased with the performance of these three relatively new funds, particularly as the market experienced some recovery over the last nine months of 2009,” said Pax World President and CEO Joe Keefe.

Each of the three funds follow Pax World’s Sustainable Investing approach, which focuses 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 portfolio managers identify companies that are more forward-thinking and acting, better at managing risk and more focused on the long term.

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

“In 2009, the Pax World International Fund benefited from strong stock selection and disciplined risk management across international sectors and regions, including a sizeable allocation to emerging market equities,” said Pax World International Fund Portfolio Manager Ivka Kalus-Bystricky. “The Fund was also well-served by focusing on investing in stocks, sectors

FUND PERFORMANCE		
AS OF DECEMBER 31, 2009	1 YEAR	SINCE INCEPTION ^F
Pax World International Fund¹ (PXINX)	39.14%	-7.41%
MSCI EAFE (Net) Index ³	31.78%	-10.97%
Pax World Global Green Fund¹ (PGRNX)	37.52%	-6.91%
MSCI World Index ⁴	29.99%	-9.17%
FTSE Environmental Opportunities Index Series ⁵	34.23%	-10.10%
Pax World Small Cap Fund¹ (PGRNX)	36.87%	-4.04%
Russell 2000 Index ⁶	27.17%	-4.11%

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.

Recent growth rate in the stock market has helped to produce short-term returns for some asset classes that are not typical and may not continue in the future. Because of ongoing market volatility, fund performance may be subject to substantial short-term changes.

¹Total annual International, Global Green and Small Cap Fund operating expenses for each of the Funds’ Individual Investor Class, gross of any fee waivers or reimbursements, are 7.40%, 3.78% and 12.09%, respectively, as of 12/31/09. Total Annual International, Global Green and Small Cap Fund operating expenses, net of fee waivers, reimbursements and acquired fund fees and expenses, are 1.40%, 1.40% and 1.24%, respectively, as of 12/31/09.

²The inception date for the Pax World International, Global Green and Small Cap Funds is March 27, 2008.

and regions which we believed to have superior sustainability, growth and quality characteristics relative to market expectations.”

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

“The Pax World Global Green Fund had a strong year due to recovery in early cycle and commodity related stocks, as well as the positive evolution of the secular growth trends in global environmental markets,” said Impax

Portfolio Manager and Investment Director, Bruce Jenkyn-Jones. “The sector is currently driven by significant changes across the economy in favor of cleaner and greener products and services, including government subsidies and stimulus, technology development and mandated spending, as well as by heightened global awareness of issues such as pollution and climate change.”

The **Pax World Small Cap Fund’s** investment objective is to seek long-term growth of capital. It seeks to achieve its objective by investing in small companies that Pax World believes to have attractive valuations and growth prospects and strong management teams that exhibit a high degree of innovation and motivation to grow their business.

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Shareholder Corner

Income Limits for Roth IRA Conversions Removed

Beginning in 2010, the modified adjusted gross income (AGI) and filing status requirements for converting a Traditional IRA or eligible retirement plan to a Roth IRA were eliminated. Any amount converted to a Roth IRA in 2010 will be included in taxable income in equal amounts in 2011 and 2012. You can, however, choose to include the entire amount in taxable income in 2010.

As always, keep in mind that converting to a Roth IRA is taxable; please consult your tax or financial advisor.

Certain income limits still apply to annual contribution to Roth IRAs. For additional information see IRS Publication 590 at www.irs.com.

Pax World Now Offers Online Account Opening

Thinking about opening a Pax World IRA or regular investment account? You can now avoid filling out and mailing a paper application by opening your new account online. Just visit www.paxworld.com and go to the Login button on the top menu bar. Need help? Contact a Pax World Shareholder Services Representative at 800.767.1729.

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As shareholder communications become available, we will send you an e-mail notification containing a link directing you to our Web site to view or download the document.

Pax World Balanced Fund Maintains High-Quality Approach

Following the difficult and challenging market of 2008, the Pax World Balanced Fund participated in the market recovery of 2009. Now, Portfolio Manager and Chief Investment Officer Chris Brown is optimistic about 2010, while still recognizing challenging issues on the economic front.

“Coming out of the recession of 2001, the Fund underperformed the following year, similar to what occurred last year. Subsequently, the market began to recognize the inherent strength of high quality companies with strong balance sheets and the Fund delivered strong performance, outperforming its benchmarks over several of the next few years. Staying with our approach was the right course then and I believe that it is now. Given the significant challenges our economy still faces in 2010, I believe the Fund is well positioned. Of course, past performance is no prediction of future results.”

For the entire in-depth discussion on Mr. Brown's outlook and strategies as he positions the Fund for the year ahead visit:

www.paxworld.com/balanced

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) management risk and, in general, (vii) the risk of losing money by investing in the funds.

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