



**PAX WORLD**  
*ethical investments*

# Proxy Voting Guidelines

*For Pax World Funds*

Updated January 14, 2005



# PAX WORLD

## Leading The Way in Proxy Voting Disclosure

The following table summarizes the guidelines that the Funds use to determine how to vote proxies relating to portfolio securities, including the procedures that the Funds use when a vote presents a conflict between the interests of Fund shareholders, on the one hand, and those of the Adviser or any affiliated person of the Funds or the Adviser, on the other. These guidelines give a general indication as to how the Adviser will vote proxies relating to portfolio securities on each issue listed. However, this listing does not address all potential voting issues or the intricacies that may surround individual proxy votes. For that reason, there may be instances in which votes may vary from the guidelines presented here. Notwithstanding the foregoing, Pax World always endeavors to vote proxies relating to portfolio securities in accordance with the Funds' investment objectives and social goals.

Because Pax World believes that social responsibility begins at home, we make every effort to be open and responsive to our shareholders. With just a few clicks of your mouse, you can access the record of Pax World's proxy voting through [www.paxworld.com](http://www.paxworld.com). When you click on links available at either the Pax World Balanced Fund or Pax World Growth Fund page, you'll see an alphabetical listing of companies in the fund's portfolio, with each company's annual meeting date. Click on the company's name to access a list of issues on its proxy and see how Pax voted on each issue.

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## 1. DIRECTOR-RELATED ISSUES

Management Proposal	Pax World Funds Vote Recommendation
<b>1a. Uncontested Election of Directors</b>	Votes on individual director nominees are made on a <b>case-by-case</b> basis.
<b>1b. Contested Election of Directors</b>	Votes in a contested election of directors are evaluated on a <b>case-by-case</b> basis
<b>1c. Classified Board</b>	Vote <b>for</b> proposals to declassify the board the directors.
	Vote <b>against</b> proposals to classify the board of directors.
<b>1d. Shareholder Ability to Remove Directors</b>	Vote <b>against</b> proposals that provide that directors may be removed only for cause.
	Vote <b>for</b> proposals to restore shareholder ability to remove directors with or without cause.
	Vote <b>against</b> proposals that provide that only continuing directors may elect replacements to fill board vacancies.
	Vote <b>for</b> proposals that permit shareholders to elect directors to fill board vacancies.
<b>1e. Cumulative Voting</b>	Vote <b>against</b> management proposals to eliminate cumulative voting.
<b>1f. Alter Size of the Board</b>	Vote <b>for</b> proposals that seek to fix the size of the board.
	Vote <b>case-by-case</b> on proposals that seek to change the size or range of the board.
	Vote <b>against</b> proposals that give management the ability to alter the size of the board without shareholder approval.

## 2. AUDITORS

Management Proposal	Pax World Funds Vote Recommendation
<b>2. Ratification of Auditors</b>	Vote <b>for</b> proposals to ratify auditors, unless an auditor has a financial interest in or association with the company, and is therefore not independent; or there is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company's financial position; or where non-audit fees exceed 25% of revenue received from that company.

### 3. PROXY CONTEST DEFENSES / TAKEOVER DEFENSES

Management Proposal	Pax World Funds Vote Recommendation
<b>3a. Shareholder Ability to Call Special Meetings</b>	Vote <b>for</b> proposals that remove restrictions on the right of shareholders to act independently of management.
	Vote <b>against</b> proposals to restrict or prohibit shareholder ability to call special meetings.
<b>3b. Shareholder Ability to Act by Written Consent</b>	Vote <b>for</b> proposals to allow or facilitate shareholder action by written consent.
	Vote <b>against</b> proposals to restrict or prohibit shareholder ability to take action by written consent.
<b>3c. Poison Pills</b>	Review on a <b>case-by-case</b> basis management proposals to ratify a poison pill. Look for shareholder friendly features including a two to three year sunset provision, a permitted bid provision, a 20 percent or higher flip-in provision, shareholder redemption feature, and the absence of dead hand features.
<b>3d. Fair Price Provisions</b>	Vote <b>for</b> fair price proposals, as long as the shareholder vote requirement embedded in the provision is no more than a majority of disinterested shares.
<b>3e. Greenmail</b>	Vote <b>for</b> proposals to adopt antigreenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments.
	Review on a <b>case-by-case</b> basis antigreenmail proposals when they are bundled with other charter or bylaw amendments.
<b>3f. Unequal Voting Rights</b>	Generally vote <b>against</b> dual class capitalization.
<b>3g. Supermajority Shareholder Vote Requirement to Amend Charter or Bylaws</b>	Vote <b>for</b> proposals to lower supermajority shareholder vote requirements for charter and bylaw amendments.
	Vote <b>against</b> management proposals to require a supermajority shareholder vote to approve charter and bylaw amendments.
<b>3h. Supermajority Shareholder Vote Requirement to Approve Mergers</b>	Vote <b>for</b> proposals to lower supermajority shareholder vote requirements for mergers and other significant business combinations.
	Vote <b>against</b> management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations.
<b>3i. Director and Officer Liability Protection</b>	Vote <b>against</b> proposals to limit or eliminate entirely director and officer liability for (i) a breach of the duty of loyalty, (ii) acts or omissions not in good faith or involving intentional misconduct or knowing violations of the law, (iii) acts involving the unlawful purchases or redemptions of stock, (iv) the payment of unlawful dividends, or (v) the receipt of improper personal benefits.
<b>3j. Director and Officer Indemnification</b>	Vote <b>against</b> indemnification proposals that would expand coverage beyond just legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligations than mere carelessness.
	Vote <b>for</b> only those proposals that provide such expanded coverage in cases when a director's or officer's legal defense was unsuccessful if: (1) the director was found to have acted in good faith and in a manner that he reasonably believed was in the best interests of the company, and (2) only if the director's legal expenses would be covered.

#### 4. MISC. GOVERNANCE PROVISIONS

Management Proposal	Pax World Funds Vote Recommendation
<b>4a. Confidential Voting</b>	Vote <b>for</b> management proposals to adopt confidential voting.
<b>4b. Bundled Proposals</b>	Review on a <b>case-by-case</b> basis bundled or “conditioned” proxy proposals. In the case of items that are conditioned upon each other, examine the benefits and costs of the packaged items. In instances where the joint effect of the conditioned items is not in shareholders’ best interests, vote against the proposals. If the combined effect is positive, support such proposals.
<b>4c. Adjourn Meeting if Votes are Insufficient</b>	Vote <b>for</b> proposals to adjourn the meeting when votes are insufficient.
<b>4d. Other Business</b>	Vote <b>for</b> other business proposals.
<b>4e. Changing Corporate Name</b>	Vote <b>for</b> changing the corporate name.

#### 5. CAPITAL STRUCTURE

Management Proposal	Pax World Funds Vote Recommendation
<b>5a. Common Stock Authorization</b>	Review on a <b>case-by-case</b> basis proposals to increase the number of shares of common stock authorized for issue.
<b>5b. Stock Distributions: Splits and Dividends</b>	Vote <b>for</b> management proposals to increase common share authorization for a stock split, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance given a company’s industry and performance as measured by total shareholder returns.
<b>5c. Reverse Stock Splits</b>	Review on a <b>case-by-case</b> basis management proposals to implement a reverse stock split. We will generally vote <b>for</b> a reverse stock split if management provides a reasonable justification for the split.
<b>5d. Blank Check Preferred Authorization</b>	Usually vote <b>against</b> proposals to create blank check preferred stock.
	Review on a <b>case-by-case</b> basis proposals that would authorize the creation of new classes of preferred stock with unspecified voting, conversion, dividend and distribution, and other rights.
	Review on a <b>case-by-case</b> basis proposals to increase the number of authorized blank check preferred shares. If the company does not have any preferred shares outstanding we will vote against the requested increase.
	Vote <b>for</b> requests to require shareholder approval for blank check authorizations.
<b>5e. Adjustments to Par Value of Common Stock</b>	Vote <b>for</b> management proposals to reduce the par value of common stock.
<b>5f. Preemptive Rights</b>	Review on a <b>case-by-case</b> basis proposals to create or abolish preemptive rights. In evaluating proposals on preemptive rights, we look at the size of a company and the characteristics of its shareholder base.
<b>5g. Debt Restructurings</b>	Review on a <b>case-by-case</b> basis proposals regarding debt restructurings.
<b>5h. Share Repurchase Programs</b>	Vote <b>for</b> management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms.

## 6. EXECUTIVE AND DIRECTOR COMPENSATION

Management Proposal	Pax World Funds Vote Recommendation
<b>6a. Stock-Based Incentive Plans</b>	Votes with respect to compensation plans should be determined on a <b>case-by-case</b> basis.
<b>6b. Approval of Cash or Cash-and-Stock Bonus Plans</b>	Vote <b>for</b> plans where the performance measures included under the plan are appropriate, the plan is administered by a committee of independent outsiders, and the preservation of the full deductibility of all compensation paid reduces the company's corporate tax obligation.
<b>6c. Employee Stock Purchase Plans</b>	Vote <b>for</b> employee stock purchase plans with an offering period of 27 months or less when voting power dilution is ten percent or less.
	Vote <b>against</b> employee stock purchase plans with an offering period of greater than 27 months or voting power dilution of greater than ten percent.
<b>6d. Outside Director Stock Awards / Options in Lieu of Cash</b>	Vote <b>case-by-case</b> on proposals that seek to pay outside directors a portion of their compensation in stock rather than cash.

## 7. MERGERS AND CORPORATE RESTRUCTURINGS

Management Proposal	Pax World Funds Vote Recommendation
<b>7a. Mergers and Acquisitions</b>	Votes on mergers and acquisitions are considered on a <b>case-by-case</b> basis.
<b>7b. Voting on State Takeover Statutes</b>	Review on a <b>case-by-case</b> basis proposals to opt in or out of state takeover statutes (including control share acquisition statutes, control share cash-out statutes, freezeout provisions, fair price provisions, stakeholder laws, poison pill endorsements, severance pay and labor contract provisions, antgreenmail provisions, and disgorgement provisions).
	Generally vote <b>for</b> opting into stakeholder protection statutes if they provide comprehensive protections for employees and community stakeholders. We would be less supportive of takeover statutes that only serve to protect incumbent management from accountability to shareholders and which negatively influence shareholder value.
<b>7c. Voting on Reincorporation Proposals</b>	Proposals to change a company's state of incorporation should be examined on a <b>case-by-case</b> basis. Review management's rationale for the proposal, changes to the charter/bylaws, and differences in the state laws governing the corporations.
<b>7d. Corporate Restructuring</b>	Votes on corporate restructuring proposals, including minority squeezeouts, leveraged buyouts, spin-offs, liquidations, and asset sales, should be considered on a <b>case-by-case</b> basis.
<b>7e. Spin-offs</b>	Votes on spin-offs should be considered on a <b>case-by-case</b> basis depending on the tax and regulatory advantages, planned use of sale proceeds, market focus, and managerial incentives.
<b>7f. Asset Sales</b>	Votes on asset sales should be made on a <b>case-by-case</b> basis after considering the impact on the balance sheet/working capital, value received for the asset, and potential elimination of diseconomies.
<b>7g. Liquidations</b>	Votes on liquidations should be made on a <b>case-by-case</b> basis after reviewing management's efforts to pursue other alternatives, appraisal value of assets, and the compensation plan for executives managing the liquidation.
<b>7h. Appraisal Rights</b>	Vote <b>for</b> proposals to restore, or provide shareholders with, rights of appraisal.

## 8. MUTUAL FUND PROXIES

Management Proposal	Pax World Funds Vote Recommendation
<b>8a. Mutual Funds - Election of Trustees</b>	Votes on trustee nominees are made on a <b>case-by-case</b> basis.
<b>8b. Mutual Funds - Investment Advisory Agreement</b>	Votes on investment advisory agreements should be evaluated on a <b>case-by-case</b> basis.
<b>8c. Mutual Funds - Fundamental Investment</b>	Votes on amendments to a fund's fundamental investment restrictions should be evaluated on a <b>case-by-case</b> basis.
<b>8d. Mutual Funds - Distribution Agreements</b>	Votes on distribution agreements should be evaluated on a <b>case-by-case</b> basis.

## 9. SHAREHOLDER PROPOSALS: CORPORATE GOVERNANCE AND EXECUTIVE COMPENSATION

Shareholder Proposal	Pax World Funds Vote Recommendation
<b>9a-1. Rotate Annual Meeting:</b>	Vote <b>against</b> shareholder proposals to rotate the annual meeting of shareholders or change the date and time of the meeting.
<b>9b-1. Declassify Board of Directors:</b>	Vote <b>for</b> proposals to declassify the board the directors.
<b>9b-2. Separate Chairman and CEO:</b>	Vote <b>for</b> shareholder proposals that would require the positions of chairman and CEO to be held by different persons.
<b>9b-3. Adopt Cumulative Voting:</b>	Vote <b>case-by-case</b> on shareholder proposals to permit cumulative voting,
	Vote <b>case-by-case</b> on shareholder proposals to adopt cumulative voting at companies with no women or minority members on the board.
<b>9b-4. Majority of Independent Directors:</b>	Vote <b>for</b> shareholder proposals that request that the board be comprised of a majority of independent directors.
<b>9b-5. Independent Committees:</b>	Vote <b>for</b> shareholder proposals that request that the board audit, compensation and/or nominating committees include independent directors exclusively.
<b>9b-6. Adopt Director Term Limits:</b>	Vote <b>against</b> shareholder proposals to limit the tenure of outside directors.
<b>9b-7. Implement Director Share Ownership Requirement:</b>	Vote <b>against</b> shareholder proposals that seek to establish mandatory share ownership requirements for directors.
	Vote <b>case-by-case</b> on shareholder proposals that ask directors to accept a certain percentage of their annual retainer in the form of stock.
<b>9c-1. Reduce Supermajority Vote Requirements:</b>	Vote <b>for</b> proposals to lower supermajority shareholder vote requirements for charter and bylaw amendments.
	Vote <b>for</b> proposals to lower supermajority shareholder vote requirements for mergers and other significant business combinations.
<b>9c-2. Remove Antitakeover Provisions:</b>	Vote <b>for</b> shareholder proposals that seek to remove antitakeover provisions.

Shareholder Proposal	Pax World Funds Vote Recommendation
9c-3. Submit Poison Pill (Shareholder Rights Plan) to a Vote:	Vote <b>for</b> shareholder proposals that ask a company to submit its poison pill for shareholder ratification.
	Review on a <b>case-by-case</b> basis shareholder proposals to redeem a company's poison pill.
	Vote <b>case-by-case</b> on proposals to amend an existing shareholder rights plan.
9c-4. Confidential Voting:	Vote <b>for</b> shareholder proposals that request corporations to adopt confidential voting, use independent tabulators and use independent inspectors of election as long as the proposals include clauses for proxy contests as follows: <i>In the case of a contested election, management is permitted to request that the dissident group honor its confidential voting policy. If the dissidents agree, the policy remains in place. If the dissidents do not agree, the confidential voting policy is waived.</i>
9c-5. Written Consent/Special Meeting:	Vote <b>for</b> shareholder proposals that provide for shareholder ability to take action by written consent and/or call a special meeting.
9c-6. Elect Auditors/ Ensure Auditor Independence:	Vote <b>for</b> proposals that would allow shareholders to elect the auditors.
9c-7. Non-Partisanship/ Political Contributions:	Vote <b>for</b> proposals calling for a company to disclose its political contributions.
9d-1. Increase Disclosure of Executive Compensation:	Vote <b>for</b> shareholder proposals seeking increased disclosure on executive compensation issues including the preparation of a formal report on executive compensation practices and policies.
9d-2. Limit Executive Compensation:	Vote <b>for</b> proposals to prepare reports seeking to compare the wages of a company's lowest paid worker to the highest paid workers.
	Vote <b>case-by-case</b> on proposals that seek to establish a fixed ratio between the company's lowest paid workers and the highest paid workers.
9d-3. Prohibit/Require Shareholder Approval for Option Repricing:	Vote <b>for</b> shareholder proposals seeking to limit repricing.
	Vote <b>for</b> shareholder proposals asking the company to have option repricings submitted for shareholder ratification.
9d-4. Severance Agreements/ Golden Parachutes:	Vote <b>for</b> shareholder proposals to have golden and tin parachutes submitted for shareholder ratification.
9d-5. Cash Balance Plans:	Vote <b>for</b> shareholder proposals calling for non-discrimination in retirement benefits.
	Vote <b>for</b> shareholder proposals asking a company to give employees the option of electing to participate in either a cash balance plan or in a defined benefit plan.
9d-6. Performance-Based Options/Indexed Options:	Vote <b>for</b> shareholder proposals to link executive pay to performance, including the use of indexed options and other indicators.
9d-7. Link Compensation to Non Financial Factors:	Vote <b>for</b> shareholder proposals calling for the preparation of a report on the feasibility of linking executive pay to nonfinancial factors, such as social and environmental goals.
	Vote <b>for</b> proposals seeking to link executive pay to non-financial factors.
9e-1. Seek sale of company/assets	Vote on a <b>case-by-case</b> basis proposals that seek the sale of the company or company assets.
9e-2. Hire advisor/maximize shareholder value	Vote on a <b>case-by-case</b> basis proposals that request the company hire an advisor to maximize shareholder value.
9e-3. Convert closed-end fund to open-end fund	Vote <b>against</b> shareholder proposals to convert a closed-end fund to an open-end fund.

**10. SHAREHOLDER PROPOSALS: SOCIAL AND ENVIRONMENTAL PROPOSALS**

Shareholder Proposal	Pax World Funds Vote Recommendation
<b>10a-1. Add Women and Minorities to Board:</b>	Vote <b>for</b> shareholder proposals that ask the company to take steps to nominate more women and minorities to the board.
<b>10a-2. Prepare Report/Promote EEOC-Related Activities:</b>	Vote <b>for</b> shareholder proposals that ask the company to report on its diversity and/or affirmative action programs.
	Vote <b>for</b> shareholder proposals calling for legal and regulatory compliance and public reporting related to non-discrimination, affirmative action, workplace health and safety, and labor policies and practices that effect long-term corporate performance.
	Vote <b>for</b> shareholder proposals calling for action on equal employment opportunity and antidiscrimination.
<b>10a-3. Report on Progress Toward Glass Ceiling Commission Recommendations:</b>	Vote <b>for</b> shareholder proposals that ask the company to report on its progress against the Glass Ceiling Commission’s recommendations.
	Vote <b>for</b> shareholder proposals seeking to eliminate “glass ceiling” for women and minority employees.
<b>10a-4. Prohibit Discrimination on the Basis of Sexual Orientation:</b>	Vote <b>for</b> shareholder proposals to include language in EEO statements specifically barring discrimination on the basis of sexual orientation.
	Vote <b>for</b> shareholder proposals seeking reports on a company’s initiatives to create a workplace free of discrimination on the basis of sexual orientation.
	Vote <b>against</b> shareholder proposals that seek to eliminate protection already afforded to gay and lesbian employees.
<b>10a-5. Report on/Eliminate Use of Racial Stereotypes in Advertising:</b>	Vote <b>for</b> shareholder proposals seeking more careful consideration of using racial stereotypes in advertising campaigns, including preparation of a report.
<b>10b-1. Codes of Conduct and Vendor Standards:</b>	Vote <b>for</b> shareholder proposals to implement human rights standards and workplace codes of conduct.
	Vote <b>for</b> shareholder proposals calling for the implementation and reporting on ILO codes of conduct, SA 8000 Standards, or the Global Sullivan Principles.
	Vote <b>for</b> shareholder proposals that call for the adoption of principles or codes of conduct relating to company investment in countries with patterns of human rights abuses (Northern Ireland, Burma, former Soviet Union, and China).
	Vote <b>for</b> shareholder proposals that call for independent monitoring programs in conjunction with local and respected religious and human rights groups to monitor supplier and licensee compliance with codes.
	Vote <b>for</b> shareholder proposals that seek publication of a “Code of Conduct” to the company’s foreign suppliers and licensees, requiring they satisfy all applicable standards and laws protecting employees’ wages, benefits, working conditions, freedom of association, and other rights.
	Vote <b>for</b> shareholder proposals seeking reports on, or the adoption of, vendor standards including: reporting on incentives to encourage suppliers to raise standards rather than terminate contracts and providing public disclosure of contract supplier reviews on a regular basis.
	Vote <b>for</b> shareholder proposals to adopt labor standards for foreign and domestic suppliers to ensure that the company will not do business with foreign suppliers that manufacture products for sale in the U.S. using forced labor, child labor, or that fail to comply with applicable laws protecting employee’s wages and working conditions.

Shareholder Proposal	Pax World Funds Vote Recommendation
<b>10b-2. Prepare Report on Operations in Burma/Myanmar:</b>	Vote <b>for</b> shareholder proposals to adopt labor standards in connection with involvement in Burma.
	Vote <b>for</b> shareholder proposals seeking reports on Burmese operations and reports on costs of continued involvement in the country.
	Vote <b>for</b> shareholder proposals to pull out of Burma.
<b>10b-3. Adopt/Report on MacBride Principles:</b>	Vote <b>for</b> shareholder proposals to report on or to implement the MacBride Principles.
<b>10b-4. Prepare Report on Operations in China:</b>	Vote <b>for</b> shareholder proposals requesting more disclosure on a company's involvement in China
	Vote on a <b>case-by-base</b> basis shareholder proposals that ask a company to terminate a project or investment in China.
<b>10b-5. Prepare Report on Maquiladoras:</b>	Vote <b>for</b> shareholder proposals to prepare reports on a company's Maquiladora operations.
<b>10b-6. Prepare Report on Company Activities Affecting Indigenous Peoples' Rights:</b>	Vote <b>for</b> shareholder proposals to prepare reports on a company's impact on indigenous communities.
<b>10c-1. Environmental Report (General):</b>	Vote <b>for</b> shareholder proposals seeking greater disclosure on the company's environmental practices, and/or environmental risks and liabilities.
<b>10c-2. Prepare Report on Global Warming/Greenhouse Gas Emissions:</b>	Vote <b>for</b> shareholder proposals seeking disclosure of liabilities or preparation of a report pertaining to global warming.
	Vote <b>for</b> shareholder proposals calling for the reduction of greenhouse gas.
<b>10c-3. Invest in Clean/Renewable Energy:</b>	Vote <b>for</b> shareholder proposals seeking the preparation of a report on a company's activities related to the development of renewable energy sources.
	Vote <b>for</b> shareholder proposals seeking increased investment in renewable energy sources.
<b>10c-4. Drilling in the Arctic National Wildlife Refuge:</b>	Vote <b>for</b> shareholder proposals asking companies to prepare a feasibility report or to adopt a policy not to mine, drill, or log in environmentally sensitive areas such as ANWR.
	Vote <b>for</b> shareholder proposals seeking to prohibit or reduce the sale of products manufactured from materials extracted from environmentally sensitive areas such as old growth forests.
<b>10c-5. Adopt/Implement CERES Principles:</b>	Vote <b>for</b> shareholder proposals to study or implement the CERES principles.
<b>10c-6. Phase Out Chlorine-Based Chemicals:</b>	Vote <b>for</b> shareholder proposals to prepare a report on the phase-out of chlorine bleaching in paper production.
	Vote <b>for</b> shareholder proposals asking companies to cease or phase-out the use of chlorine bleaching.
<b>10c-7. Report/Reduce Toxic Emissions and Assess Community Impact:</b>	Vote <b>for</b> shareholder proposals that seek to prepare a report on the company's procedures for reducing or preventing pollution and/or the impact of the company's pollution on the surrounding communities.
	Vote <b>for</b> shareholder proposals calling on the company to establish a plan reduce toxic emissions.

Shareholder Proposal	Pax World Funds Vote Recommendation
<b>10c-8. Adopt a Comprehensive Recycling Policy:</b>	Vote <b>for</b> shareholder proposals requesting the preparation of a report on the company's recycling efforts.
	Vote <b>for</b> shareholder proposals that ask companies to increase their recycling efforts or to adopt a formal recycling policy.
<b>10c-9. Nuclear Energy:</b>	Vote <b>for</b> shareholder proposals seeking the preparation of a report on a company's nuclear energy procedures.
	Vote <b>for</b> proposals that ask the company to cease the production of nuclear power.
<b>10d-1. Report on Handgun Safety Initiatives:</b>	Vote <b>for</b> shareholder proposals asking the company to report on its efforts to promote handgun safety.
	Vote <b>for</b> shareholder proposals asking the company to stop the sale of handguns and accessories.
<b>10d-2. Prepare Report to Renounce Future Landmine Production:</b>	Vote <b>for</b> shareholder proposals seeking a report or the renouncement of future landmine production.
<b>10d-3. Prepare Report on Foreign Military Sales:</b>	Vote <b>for</b> shareholder proposals to report on foreign military sales or offset agreements.
	Vote <b>for</b> proposals that call for restrictions on foreign military sales.
<b>10e-1. Phase-out /A152 Label Products Containing Genetically Modified Organisms:</b>	Vote <b>for</b> shareholder proposals to label products that contain genetically modified organisms.
	Vote <b>case-by-case</b> on shareholder proposals that ask the company to phase out the use of genetically modified organisms in their products.
	Vote <b>for</b> shareholder proposals that ask the company to report on the use of genetically modified organisms in their products.
<b>10e-2. Tobacco-related Proposals:</b>	Vote <b>for</b> shareholder proposals seeking to limit the sale of tobacco products to children.
	Vote <b>for</b> shareholder proposals asking producers of tobacco product components (such as filters, adhesives, flavorings, and paper products) to halt sales to tobacco companies.
	Vote <b>for</b> shareholder proposals that ask restaurants to adopt smoke-free policies.
	Vote <b>for</b> shareholder proposals seeking a report on a tobacco company's advertising approach.
	Vote <b>for</b> shareholder proposals at insurance companies to cease investment in tobacco companies.
	Vote <b>for</b> proposals at producers of cigarette components calling for a report outlining the risks and potential liabilities of the production of these components.
	Vote <b>for</b> on proposals calling for tobacco companies to cease the production of tobacco products.
<b>10e-3. Adopt Policy/Report on Predatory Lending Practices:.</b>	Vote <b>for</b> shareholder proposals seeking the development of a policy or preparation of a report to guard against predatory lending practices.
<b>10e-4. Disclosure on Credit in Developing Countries (LDCs):</b>	Vote <b>for</b> shareholder proposals asking for disclosure on lending practices in developing countries, unless the company has demonstrated a clear proactive record on the issue.

Shareholder Proposal	Pax World Funds Vote Recommendation
10e-5. Forgive LDC Debt:	Vote <b>against</b> shareholder proposals asking banks to forgive loans outright.
	Vote <b>case-by-case</b> on shareholder proposals asking for loan forgiveness at banks that have failed to make reasonable provisions for non-performing loans.
	Vote <b>for</b> proposals to restructure and extend the terms of non-performing loans.
10e-6. Adopt Policy/Report on Drug Pricing:	Vote <b>for</b> shareholder proposals to prepare a report on drug pricing.
	Vote <b>for</b> shareholder proposals to adopt a formal policy on drug pricing.
10e-7. Adult Entertainment:	Vote <b>for</b> shareholder proposals that seek a review of the company's involvement with pornography.
10e-8. Abortion/Right to Life Issues:	<b>Abstain</b> on shareholder proposals that address right to life issues.
10e-9. Animal Testing (substitutes for):	Vote <b>for</b> shareholder proposals that seek to limit unnecessary animal testing where alternative testing methods are feasible or not required by law.
10e-10. Disclosure on Plant Closings:	Vote <b>for</b> shareholder proposals seeking greater disclosure on plant closing criteria if such information has not been provided by the company.
10e-11. Control over Charitable Contributions:	Vote <b>against</b> shareholder proposals giving criteria or to require shareholder ratification of grants.
10e-12. Disclosure on Prior Government Service:	Vote <b>for</b> shareholder proposals calling for the disclosure of prior government service of the company's key executives.

# GLOSSARY

## OF TERMS

### BLANK CHECK PREFERRED STOCK

A popular term for preferred stock in which the board is given broad discretion to establish voting, conversion, dividend, and other rights of preferred stock at the time the board issues the stock. Some boards that have authority to issue blank check preferred stock have used it to create takeover defenses.

### BONUS SHARES

Share awards which in some cases may not vest until various performance goals are met or the employee has remained with the company for a mini-mum number of years.

### BYLAW

Bylaws supplement each company's charter, spelling out in more specific detail general provisions contained in the charter. Boards often have the power to change bylaw provisions without shareholder approval.

### CHANGE-IN-CONTROL PROVISION

A provision in a stock option plan that allows for immediate vesting of outstanding options if certain events take place which may be deemed a change in control, such as the purchase of a majority of the company's outstanding shares by a third party.

### CHARTER

Also known as the articles of incorporation, the charter sets forth the respective rights and duties of shareholders, officers, and directors. The charter constitutes the fundamental governing rules for each company. Shareholder approval is required to amend a company's charter.

### CLASSIFIED BOARD

A classified board is a board that is divided into separate classes, with directors serving overlapping terms. A company with a classified board usually divides the board into three classes; each year, one-third of the directors stand for election. A classified board makes it difficult to change control of the board through a proxy contest, since it would normally take two years to gain control of a majority of board seats.

### CONFIDENTIAL VOTING

Also known as closed voting or voting by secret ballot, under confidential voting pro-

cedures, all proxies, ballots, and voting tabulations that identify shareholders are kept confidential. Independent vote tabulators and inspectors of election are responsible for examining individual ballots, while management and shareholders are only told vote totals.

### CORPORATE GOVERNANCE

Corporate governance is the framework within which companies exist. Its focus is the relationship among officers, directors, shareholders, stakeholders, and government regulators, and how these parties interact to oversee the operations of a company.

### CUMULATIVE VOTING

Normally, shareholders cast one vote for each director for each share of stock owned. Cumulative voting permits shareholders to apportion the total number of votes they have in any way they wish among candidates for the board. Where cumulative voting is in effect, a minority of shares may be able to elect one or more directors by giving all of their votes to one or several candidates.

### DILUTION

A decline in the relative ownership interest that occurs when a company increases the number of shares outstanding. Dilution can affect voting power as well as earnings per share and dividends.

### EMPLOYEE STOCK PURCHASE PLAN

A plan qualified under Section 423 of the IRS Code, which allows employees to purchase shares of stock through payroll deductions.

### FAIR PRICE REQUIREMENTS

Fair price requirements compel anyone acquiring control of a company to pay all shareholders the highest price that the acquirer pays to any shareholder during a specified period of time. Fair price requirements may be included in a company's charter, or in state business incorporation statutes. Fair price requirements are intended to deter two-tier tender offers in which shareholders who tender their shares first receive a higher price for their shares than other shareholders.

### GOLDEN PARACHUTES

A popular phrase for severance agreements that provide generous benefits to top executives who are fired or who resign following a change in management control. Some golden parachutes can be deployed even without a change in control if a potential acquirer crosses a specified ownership threshold.

### GREENMAIL

Greenmail refers to the practice of repurchasing shares from a bidder at an above-market price in exchange for the bidder's agreement not to acquire the target company. Greenmail is widely considered to be a form of blackmail. Some companies have attempted to deter greenmail by adding antigreenmail provisions to their charters.

### INCENTIVE STOCK OPTIONS (ISOs) OR QUALIFIED STOCK OPTIONS

Stock option grants that meet the requirements established by Section 422A of the Internal Revenue Code. For such option grants to qualify as ISOs, the optionee must be an employee, the stock option plan must be approved by shareholders, the option term cannot exceed ten years, and the option price must be equal to or greater than 100 percent of fair market value at grant date. Such grants are not taxed until the stock is sold.

### INDEMNIFICATION

Indemnification permits companies to reimburse officers and directors for expenses they incur as a result of being named as defendants in lawsuits brought against the company. Indemnification often covers judgment awards and settlements as well as expenses. Without indemnification, or directors' liability insurance, most companies would be unable to attract outside directors to serve on their boards.

### INDEXED OPTION

The right, but not the obligation, to purchase shares at an exercise price that periodically adjusts upward or downward in relation to a market or industry indicator.

### POISON PILL

The popular term for a takeover defense that permits all shareholders other than an acquirer to purchase shares in a company at a discount if the company becomes a takeover target. A company with a pill (also known as a shareholder rights plan) usually distributes warrants or purchase rights that become exercisable when a triggering event occurs. The triggering event occurs when an acquirer buys more than a specified amount of a target company's stock without permission of the target company's board. Once the pill is triggered, shareholders (except for the acquirer) usually have the right to purchase shares directly from the target company at a 50-percent discount, diluting both ownership interest and voting rights. Most pills have

provisions that permit the board to cancel the pill by redeeming the outstanding warrants or rights at nominal cost. Pills can force acquirers to bargain directly with a target company's board, but they can also be used to deter or to block acquisition bids altogether. Companies are not required by law to submit their poison pills for shareholder approval, and very few companies have chosen to seek shareholder approval.

### PREEMPTIVE RIGHTS

Preemptive rights are intended to allow existing shareholders to maintain their proportionate level of ownership by giving them the opportunity to purchase additional shares pro rata before they are offered to the public. Preemptive rights are something of an anachronism today, because shareholders of publicly traded companies who want to maintain their proportionate ownership interest may do so by purchasing shares in the open market. Many companies whose charters have preemptive rights provisions have asked shareholders to amend their charters to abolish preemptive rights.

### PROXY

The granting of authority by shareholders to others, most often corporate management, to vote their shares at an annual or special shareholders' meeting.

### PROXY CONTEST

Proxy contests take different forms. The most common type of proxy contest is an effort by dissident shareholders to elect their own directors. A contest may involve the entire board, in which case the goal is to oust incumbent management and take control of the company. Or, it may involve a minority of board seats, in which case dissidents seek a foothold position to change corporate strategy without necessarily changing control. Proxy contests may also be fought over corporate policy questions; dissidents may, for example, wage a proxy contest in support of a proposal to restructure or sell a company. Many proxy contests are today waged in conjunction with tender offers as a means of putting pressure on a target company's board to accept the tender offer. In a well-financed proxy contest, dissidents usually print and distribute their own proxy materials, including their own proxy card. Proxy contests usually feature letter writing and advertising campaigns to win shareholder support.

### REINCORPORATION

Reincorporation refers to changing the state of incorporation. A company that reincorporates must obtain shareholder approval for the move and for the new charter it adopts when it shifts its state of incorporation. Many reincorporations involve moves to Delaware to take advantage of Delaware's

### REPRICING

An amendment to a previously granted stock option contract that reduces the option exercise price. Options can also be repriced through cancellations and regrants. The typical new grant would have a ten-year term, new vesting restrictions, and a lower exercise price reflecting the current lower market price.

### RESTRUCTURING PLAN

A restructuring plan is any plan that involves a significant change in a company's capital structure. This would include a recapitalization plan, a leveraged buyout, or a major sale of assets. Restructuring plans often require shareholder approval before they can be implemented.

### STAKEHOLDER LAWS

In essence, stakeholder laws state that corporate directors owe a duty to a host of constituencies beyond shareholders: local communities, employees, suppliers, creditors, and others. This is in contrast to the traditional model of the publicly held company in law and economics, which says that corporate directors have a legally enforceable duty to one constituency their share owners.

### STOCK OPTIONS

Give holders the right to purchase stock at a fixed price for a specified period of time. The difference between the exercise price and the market price is called the "spread" and constitutes the reward to the option holder. The value of an option grant is heavily dependent on the volatility of a particular company's stock. The more volatile the company's stock, the more valuable the option grant. Thus, options are usually most valuable at high-growth, low-dividend companies.

### SUPERMAJORITY

Most state company laws require that mergers, acquisitions, and amendments to the corporate charter be approved by a majority of the outstanding shares. A company may, however, set a higher requirement by obtaining shareholder approval for a higher threshold. Some supermajority requirements

apply to mergers and acquisitions. Others apply to amendments to the charter itself that is, the charter, or certain parts of it, may be amended in the future only if the amendments receive the specified supermajority level of support.

### TIN PARACHUTES

Compensation agreements that cover middle management and other non-highly compensated employees in the event of a change in control. Like golden parachutes, these severance payment packages can be adopted by a board without shareholder approval, provided that the parachute is not adopted primarily as a defensive measure in response to a hostile bid.

### UNEQUAL VOTING

Companies with dual-class capitalization plans usually have two classes of stock with different voting and dividend rights. Typically, one class of stock has higher voting rights and lower dividend rights. Insiders owning the higher voting shares are able to maintain control, even though they usually own only a fraction of the outstanding shares.

### VOTING POWER DILUTION (VPD)

The relative reduction in voting power as stock-based incentives are exercised and existing shareholders' proportional ownership in the company is diluted.

### WRITTEN CONSENT

The ability to act by written consent allows shareholders to take action collectively without a shareholders' meeting. The written consent procedure was developed originally to permit closely held companies to act quickly by obtaining consents from their shareholders. The procedure, however is, available in many states to publicly traded companies as well, unless prohibited or restricted in a company's charter. Many companies have sought shareholder approval to restrict or abolish the written consent procedure; their principal reason for doing so is to prevent takeovers opposed by the incumbent board and management.

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