

INSIDE

AGGRESSIVE ADVOCACY
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WORLD'S ENGAGEMENT

EAPS PERFORMANCE,
COMMUNICATIONS
ELEVATE MARKET PRESENCE

Addressing Climate Change Requires Addressing Corporate Political Spending

The opposing viewpoints are clear in the ongoing fossil fuel and climate change debate. One group advocates dramatically reducing greenhouse gas (GHG) emissions while the other advocates maintaining the status quo. What is not as clear are the tactics the latter employs to advance its interests.

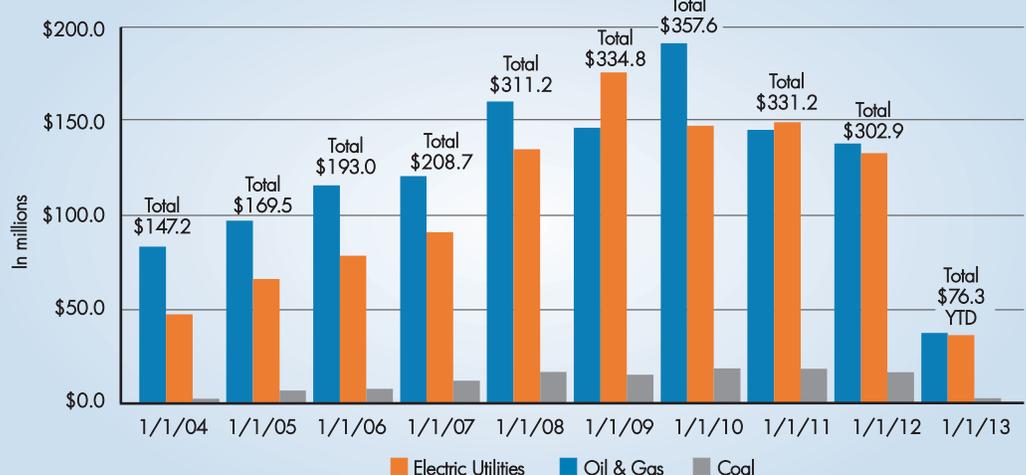
Julie Gorte, Pax World Senior Vice President, Sustainable Investing, joins Joe in calling for increased transparency into the political contributions and lobbying activities of fossil fuel interests, which could level the playing field. Pax World is at the forefront of advancing those efforts.

“It is encouraging that President Obama put climate change back on the public policy agenda in his January inauguration speech,” Pax World CEO and President Joe Keefe says. “Realistically, however, Congress is expected to do nothing because one bloc (which happens to be one of our two great political parties) essentially denies the science while receiving heavy financial backing from the very special interest that stands to benefit most from doing nothing—the fossil-fuel industry (coal, oil, gas and power companies).”

Evidence of GHG's negative effects on the climate is mounting. A recent entry: levels of carbon dioxide in the atmosphere surpassed 400 parts per million on May 10, 2013, the first time since prehistoric times, according to the National Oceanic and Atmospheric Administration¹. Scientific studies contend that if the oil, gas and coal industries and the energy utilities burn all their remaining fossil fuel reserves, Earth's temperature easily and irrevocably will pass the 2°C increase after which catastrophic planetary warming will become unstoppable.

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Composite Political Contributions Expenditures by Coal, Electric Utility and Oil & Gas Industries 2004 - 2013



Source: Center for Responsive Politics, OpenSecrets.org data on Influence & Lobbying.

© 2013 Pax World Management LLC
30 Penhallow Street, Suite 400
Portsmouth, NH 03801

Editor Jim Durning
Layout Dorset Norby Star

General Fund Information:
☎ 800.767.1729

Shareholder Account Information:
☎ 800.372.7827

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Pax World's Advocacy Agenda Highlights Key Engagements

Pax World's role in advancing key environmental, social and governance (ESG) issues remained highly visible during the first half of 2013. By directly engaging corporate management and through proactive outreach to media channels, Pax World's leadership kept the spotlight on such issues as climate change, board diversity, data security and privacy, and the potential effects of improper lead battery disposal on the environment and worker safety.

The Environment and Renewable Energy

The environment is at the top of Pax World's advocacy agenda. In an essay published opposite the editorial page in *The Denver Post* (www.denverpost.com/opinion/cj_22592859/investor-colorado-can-lead-renewable-energy), Julie Gorte, Ph.D, senior vice president, Sustainable Investing, encouraged Colorado state lawmakers to resist efforts to roll back goals for transition to alternative energy sources. The article also can be accessed on paxworld.com (www.paxworld.com/system/storage/8/a/9/2228/investors_colorado.pdf).

The Guardian published Julie's co-authored essay on biodiversity and ecosystem services that encourages the asset management industry to engage with scientists in this field to develop data that can contribute to risk management (www.guardian.co.uk/sustainable-business/blog/business-risk-biodiversity-ecosystems-overlooked).

Withdrawn Proposals Mark Successes

Pax World advocated for board diversity as companies recommend nominations for new members of boards of directors. After directly engaging Stericycle and Hospitality Properties Trust through shareholder proposals, the companies



agreed to make greater board diversity a goal in future director nominations. Pax withdrew its shareholder proposals and shared news of the board diversity successes with investors through the US SIF (the Forum for Sustainable and Responsible Investing) channel. Lead Sustainability Analyst Heather Smith's report on gender equality and board diversity efforts is posted to paxworld.com (www.paxworld.com/system/storage/8/03/3/2213/global_board_diversity_long_way_to_go.pdf).

The Harvard Business Review published an essay on board diversity by Julie (http://blogs.hbr.org/cs/2013/05/a_diverse_board_is_an_independent_board.html). After reading her article, *Boardprospects.com* invited Julie to guest blog on corporate governance.

Pax World engaged Amazon to address the firm's reporting on data security and privacy, significant concerns for companies in the internet-age. After successful negotiations, Pax World withdrew a shareholder proposal. *The Guardian* published a blog exploring the topic co-authored by Sustainability Analyst Corey Johnson (www.guardian.co.uk/sustainable-business/privacy-data-security-investors-care).

When a shareholder proposal is not received positively by management, Pax World continues to actively advance shareholder interests. Google, Inc. advised shareholders to vote against Pax World's proposal for increased reporting on disposal of lead batteries. Improper lead battery disposal can damage the environment and threaten the health of workers and local residents. *The Guardian* published Sustainability Analyst Greg Hasevlat's blog about the issue (www.guardian.co.uk/sustainable-business/amazon-google-date-centres-green-climate-change) which also is available on paxworld.com (www.paxworld.com/system/storage/8/48/d/2217/lead_battery_recycling.pdf). Pax World also shared its rebuttal to Google's opposition, filed with the Securities & Exchange Commission, with other investors via the SIF network, encouraging them to vote for the proposal. ■

As of 3/31/13, holdings of Stericycle, Inc., stock were 0.6% of Pax World Balanced Fund, 2.9% of Pax World Global Environmental Markets Fund, and 1.7% of Pax World Small Cap Fund; holdings of Hospitality Properties Trust stock were 0.4% of Pax World Balanced Fund; holdings of Amazon Inc., stock were 0.2% of Pax World Balanced Fund and 0.9% of Pax World Growth Fund; and holdings of Google, Inc., were 1.2% of Pax World Balanced Fund, 2.5% of Pax World Growth Fund, and 2.0% of Pax World Global Women's Equality Fund. Holdings are subject to change.

EAPS Performance Elevates ETF's Market Presence

Positive performance combined with strong growth in assets invested in the fund are elevating the awareness of Pax MSCI EAFE ESG Index ETF (EAPS) among investors.

Launched in January of 2011, EAPS is a passively managed exchange traded fund (ETF). It invests in equity securities of companies in developed markets outside of the U.S. and Canada that earn high environmental, social and governance (ESG) rankings from MSCI ESG Research relative to their sector and industry group peers in the MSCI Europe, Australasia, Far East (EAFE) ESG Index. EAPS invests in a representative sample of the securities in the MSCI index whose risk, returns and other characteristics closely resemble those of the MSCI's index as a whole, in the opinion of Pax World which advises EAPS. EAPS is the only international equity ETF distributed in the U.S. driven by a sustainable investing approach.

EAPS' investment performance is among the best in the Morningstar Foreign Large Blend ETF investment category. It ranks number one out of 13 peer ETFs in the category on the basis of returns earned for the two-year and since-inception (1/27/2011) periods ended March 31, 2013, and it ranks second among its 17 peer ETFs for returns earned during the one-year period ended on the same date.

As of March 31, 2013, EAPS also has the lowest standard deviation, a common measure of the volatility of an investment's performance, among its 13 ETF peers. When measuring the amount of excess return it earns as compared to the amount of risk it takes, EAPS ranks among the top 1% of its peers for earning relatively higher returns with lower risk than its peers.

Assets invested in the fund as of May

Return

EAPS vs. Morningstar Foreign Large Blend ETF as of 3/31/2013

1 Year Rank 2nd Ranked 2 out of 17	2 Year Rank 1st Ranked 1 out of 13	Since Inception (1/27/11) 1st Ranked 1 out of 13
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Performance data quoted represents 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 more recent month-end performance information visit www.paxworld.com

Rankings for the 1 and 2 year periods are from Morningstar and the since inception ranking (01/27/11) is calculated by Pax World Management LLC using the entire Morningstar Foreign Large Blend ETF classification peers with standard annualized performance and ranking methodology.

Risk

EAPS vs. Peer Risk Statistics Since EAPS Inception as of 3/31/2013

Risk/Volatility Standard Deviation Lowest 1% Ranked 1 out of 13	Excess return per unit of total risk Sharpe Ratio Top 1% Ranked 1 out of 13	Excess return per unit of market risk Treynor Ratio Top 1% Ranked 1 out of 13
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Morningstar Foreign Large Blend ETF classification tracks ETFs that invest in a variety of big international stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios typically will have less than 20% of assets invested in U.S. stocks.

Lipper International Large-Cap Core classification tracks the results of funds that, by portfolio practice, invest at least 75% of their equity assets in companies strictly outside of the U.S. with market capitalizations (on a three-year weighted basis) above Lipper's international large-cap floor. International large-cap core funds typically have an average price-to-cash flow ratio, price-to-book ratio, and three-year sales-per-share growth value compared to their large-cap-specific subset of the S&P/Citigroup World ex-U.S. BMI. This classification includes both ETFs and active retail mutual funds.

31, 2013, are seven times higher than the total invested in the fund at December 31, 2011. You can view the full version of this informative fact sheet about Pax MSCI EAFE ESG Index ETF at www.paxworld.com/system/storage/8/92/a/2538/The_only_

[international ETF driven by a sustainable investing approach.pdf](#).

Unlike Pax Mutual Funds, EAPS shares trade on the New York Stock Exchange and can only be purchased through brokers. ■

“The plain fact is that the largest single driver of climate change—the fossil-fuel industry—finances its agenda in Congress with little or no accountability to shareholders and consumers,” Joe says. “And it is easy to understand why they spend so much money on lobbying and campaign donations. Any truly effective strategy to combat climate change would require, first, putting a price on carbon so that polluting the atmosphere is no longer free, and second, keeping a significant portion of remaining fossil-fuel reserves in the ground rather than burning them. In each instance, fossil-fuel industry profits would be greatly reduced. So, with Congress firmly in their grasp, they have effectively halted any meaningful progress.”

“Fossil fuel interests oppose emissions regulation,” Julie explains. “Lobbying by electric utilities increased significantly in 2008 and 2009 after Mr. Obama was elected to his first term (see chart on page 1). The picture is similar for oil and gas companies and coal mining companies. It is likely that activity will continue at elevated levels during his second term.”

“The fact is, we know a lot about how much energy and utility companies spend on fighting climate legislation because they are required to report this information,” she adds. “Industry and non-profit groups cloud the picture, however. A lot of corporate money is directed to these groups and they are not required to report on their

spending. This provides cover for companies to influence legislation. Would they do the same if their political contributions and lobbying activities were publicly disclosed? Our bet is that they would not. But, if they did, we could hold them accountable.”

To that end, Pax World’s April 13, 2013 letter to the U.S. Securities and Exchange Commission asked for just such market regulations to be enacted.

“Pax World’s mutual funds seek to invest in companies that display transparency in their governance practices and in their relationships with shareholders,” the letter states. “We also aim to protect our shareholders from negative reputational risk stemming from controversial public policy positions taken by the companies held in our funds.”

The Supreme Court’s 2010 *Citizens United v. Federal Election Commission* ruling allows corporations to spend an unlimited amount of general treasury funds on independent expenditures and electioneering communications without also requiring shareholder disclosure. This makes it extremely difficult for investors to determine if a company’s political activities are in the best interests of shareholders.

While acknowledging Pax World’s longstanding efforts to get corporations to report on their political spending and to establish board oversight of such

spending, the letter notes that the majority of companies do not have policies or board level oversight or reporting regarding political spending.

“In issuing its decision in *Citizens United*, the Supreme Court noted that, ‘With the advent of the internet, prompt disclosure of expenditures can provide shareholders and citizens with the information needed to hold corporations and elected officials accountable for their positions,’” Pax World’s letter states. “Unfortunately, without rules requiring corporations to publicly disclose expenditures, we believe that such disclosure will remain woefully inadequate. We therefore ask the SEC to use its authority to require public corporations to disclose their political spending so that companies like Pax World can make decisions that we believe to be in the best interests of our shareholders.”

Disclosure of political spending and lobbying activities by corporations is essential to helping investors fully align their portfolios with their personal values and aspirations for tomorrow. In the case of fossil fuel companies, such disclosure is critical if investors are to have any success in advocating regulatory policies and corporate strategies that can help to avert catastrophic climate change. ■

¹⁴Carbon Dioxide at NOAA’s Mauna Loa Observatory reaches new milestone: Tops 400 ppm,” <http://research-matters.noaa.gov/news/Pages/CarbonDioxideatMaunaLoareaches400ppm.aspx>, May 10, 2013

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.

RISK: Equity investments are subject to market fluctuations, the fund’s share price can fall because of weakness in the broad market, a particular industry, or specific holdings. Investing in non-diversified funds generally will be more volatile and loss of principal could be greater than investing in more diversified funds.

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

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