

**THOMPSON
HINE**

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**INVESTMENT MANAGEMENT
UPDATE****SEC Settles Action Against Fund for Violating Socially Responsible Investment Restrictions**

On July 30, 2008, the Securities and Exchange Commission (SEC) settled an enforcement action against Pax World Management Corp. (“Pax World”) for alleged violations of Section 206(2) of the Investment Advisers Act and Sections 13(a)(2) and 34(b) of the Investment Company Act. The SEC alleged that from 2001 through 2005, Pax World represented to investors and to the board of trustees of Pax World Funds (the “Funds”) that it complied with various socially responsible investing (“SRI”) restrictions, including a prohibition on purchasing or holding securities issued by companies that derived revenue from the manufacture of weapons, alcohol, tobacco or gambling products. The settlement states that Pax World acted contrary to these restrictions and violated the Funds’ SRI restrictions when it purchased for the Pax World Growth and Pax World High Yield Funds 10 securities of companies that:

- Derived revenue from the manufacture of alcohol and/or gambling products;
- Derived more than 5% of their revenue from contracts with the U.S. Department of Defense; and
- Failed to satisfy the Funds’ environmental or labor standards.

During this period Pax World also failed to consistently follow its own SRI-related policies and procedures requiring that all securities be screened by Pax World’s Social Research Department prior to purchase to ensure compliance with the SRI disclosures. Finally, the SEC also alleged that during the period in question Pax World did not consistently monitor Fund holdings and violated other of its SRI-related policies and procedures. As a result of these violations, the SEC alleges that the Funds held at least one prohibited security at all times from 2001 through early 2006.

SANCTIONS

The SEC settlement order noted the cooperation afforded to the SEC by Pax World and the remedial actions taken by Pax World, which included replacing its senior management, chief compliance officer, director of social research and portfolio managers for the High Yield and Growth Funds; developing and distributing a new compliance manual relating to SRI issues; and implementing new computer software for SRI compliance. Nevertheless, the SEC censured Pax World and ordered it to pay a civil penalty of \$500,000.



FOR MORE INFORMATION

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