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Why Diversity and Equality Should Go Hand in Hand

By Julie Gorte, Ph.D., Senior Vice President for Sustainable Investing, Pax World

Equality is one of those concepts that sounds

simple (and should be simple), but really is quite complex. The same goes for diversity. The real trick is in achieving *both*.

It's much easier to achieve equality without diversity—as our own Declaration of Independence holds it to be self-evident that “all *men* are created equal.” Equality among men is one thing, equality for *both genders* is harder. It's also easier when the term “men” doesn't apply to males of all races and ethnicities. Similarly, embracing diversity is easier if you don't believe that you have to give everybody equal opportunities and protections.

In today's world we simply can't afford to have partial equality or unequal diversity: we need both.

There are business reasons, as well as moral ones, to assure that women and men have equal opportunities to contribute in the workplace. And at Pax World that's something we think has value for investors as well.

Gender equality—assuring that men and women have equal access to work and advancement, capital, and pay for comparable work—is a key ingredient in channeling human talent in the workforce.

The World Economic Forum (WEF) highlights this by stating “empowering women means a more efficient use of a nation's human capital endowment and that reducing gender inequality enhances productivity and economic growth.”¹

UN Women supports this view, noting that “when more women work, economies grow.”² The U.S. Agency for International Development (USAID) also picks up this theme, noting that “eliminating workplace discrimination against women can increase productivity,”³ and “facilitating women's entrepreneurship benefits economic development.” The International Monetary Fund maintains that

“closing gender gaps benefits countries as a whole, not just women and girls.”⁴

On the corporate side, numerous studies—from Credit Suisse,⁵ the Peterson Institute,⁶ and Gallup,⁷ among others—note that companies with more women in leadership positions tend to do better financially, as do business units that are more gender-diverse.

Moreover, research shows that diverse groups tend to be smarter and make better decisions than homogeneous ones.⁸ Scientific American notes that “being around people who are different from us makes us more creative, more diligent and harder-working,” because interacting with others who are different makes us prepare better and work harder to achieve consensus among people with different viewpoints.⁹

The facts solidly support the economic benefits of a world in which we embrace diversity in ways that give people in all their endless variety true equality of opportunity. I have one daughter, and one transgender son. I want them to have a world in which they don't have to be better than their peers in order to have the same opportunities. 🌱

¹World Economic Forum, *The Case for Gender Equality*, 2015.

²UN Women, “Facts and Figures: Economic Empowerment,” April 2015.

³US AID, “Strengthening Economic Growth Through Investments in Gender Equality.”

⁴International Monetary Fund, “Empowering Women Is Smart Economics,” March 2012.

⁵Credit Suisse, *The CS Gender 3000: Women in Senior Management*, 2014.

⁶Marcus Noland, Tyler Moran and Barbara Kotschwar, Peterson Institute, *Is Gender Diversity Profitable? Evidence from a Global Survey*, February 2016.

⁷Sangeeta Bharadwaj Badal, Gallup, *The Business Benefits of Gender Diversity*, January 20, 2014.

⁸Anita Borg Institute, *The Case for Investing in Women*, 2014.

⁹Katherine W. Phillips, “How Diversity Makes Us Smarter,” *Scientific American*, October 1, 2014.

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Three Ways Sustainable Investors Can Harness the Power of Smart Beta

By Steve Falci, CFA®, Chief Investment Officer, Pax World

ESG portfolio strategies are becoming increasingly more sophisticated. The worlds of sustainable and smart beta investing are converging, providing investors with new ways to capture financial factors *and* environmental, social and governance (ESG) factors in their portfolios.

For a growing segment of sustainable investing portfolios, particularly those focused on large cap equities, the process is all about capturing the right ESG factor exposures.

Thanks to a growing body of research that examines how sustainability impacts financial performance,¹ ESG analysts, including the Pax Sustainability Research Team, are shaping ESG ratings to hone in on material factors.

Why are ESG integration and smart beta converging?

We see four main catalysts:

1. Active large cap managers have struggled recently

Large cap active managers are operating in the most efficient area of the market, where it is difficult to produce consistent, differentiated ideas based solely on traditional financial analysis. ESG integration can potentially provide an information advantage.

2. The rise of smart beta

As large cap active managers in aggregate have disappointed, smart beta has taken hold as an increasingly popular and attractive hybrid between active and passive management. Smart beta strategies combine some of the advantages of passive management (i.e. lower fees) with the potential to exploit long-established anomalies in financial factors such as quality, value and low volatility.

3. Research shows ESG as a driver of positive risk/reward results

What is smart beta?

Smart beta, also referred to as factor-based investing, is a strategy where a portfolio of securities is over weighted, or tilted, toward certain factors—rather than market capitalization—in an effort to potentially enhance return and reduce risk.

What are factors?

Factors are investment characteristics that explain the risk and return behavior of a security.

ESG integration is now recognized as a strategy for mitigating risk and adding value that can be consistently captured and applied to a portfolio of securities.²

4. ESG data improvements

The increasing availability of more comprehensive ESG data, research and ratings allows investors to target specific ESG factor exposures with more accuracy.

Three ways to harness ESG in portfolios

Now let's consider how investors like Pax World are sourcing ESG factor returns.

1. Core: A market-cap weighted portfolio, tilted toward ESG

Specialty indexed approaches utilizing ESG ratings can be used to build a market-like portfolio of sustainable companies.

Sustainable indexing dates back to the 1990's and continues to evolve with an increased reliance on ESG ratings. One international equity example is the MSCI EAFE ESG Index.³ That's the Index that the **Pax MSCI International ESG Index Fund (PXINX)** is designed to track. The aim is to capture the potential stronger risk-adjusted performance that the ESG factor may add in developed international markets over the long term.

2. Thematic: A portfolio targeting a more specific ESG factor

A second approach is applying smart beta investing to a particular ESG issue or theme, such as advancing women in leadership or combatting climate change through low carbon portfolios.

At Pax World, our sustainability research team has collected gender data globally, organized it and weighted it to create a gender score that is used as a fundamental factor in the **Pax Ellevest Global Women's Index Fund (PXWEX)**. In essence, the Fund is designed to capture investment returns associated with gender diversity and women's leadership.

3. Multifactor: A portfolio integrating ESG and financial factors

A third approach integrates both financial and ESG factors into portfolio construction. Pax World recently moved in this direction with the launches of the **Pax ESG Beta® Quality Fund (PXWGX)** and the **Pax ESG Beta® Dividend Fund (PAXDX)**—both are multifactor strategies that emphasize stocks with stronger ESG profiles. The Pax ESG Beta Quality Fund focuses on stocks with higher profitability, higher earnings quality, lower risk, and lower valuations. The Pax ESG Beta Dividend Fund focuses dividend-paying stocks with higher dividend yield and higher quality fundamentals that may support future dividend payments. As a key input into the process for both Funds, the Pax Sustainability Score aims to capture material ESG information regarding a company's risk and performance potential.

Here to Stay

These factor-based investment concepts are not new. Investing in forward thinking companies with more sustainable business models has long been part of active management, including here at Pax World. What *is* new, is that there are quantitative

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Pax World News

Pax World Launches Three New Funds

We are pleased to introduce three new funds to the Pax World mutual fund family. On December 16, 2016, Pax World launched:

- **Pax ESG Beta® Dividend Fund** – A smart beta¹ strategy focused on ESG, dividend yield and dividend sustainability factors.
- **Pax Large Cap Fund** – A high conviction, core-growth strategy featuring ESG integration.
- **Pax Core Bond Fund** – An investment-grade fixed income portfolio with an allocation to sustainable, high-impact bonds.

The new funds extend Pax World's sustainable investing expertise in two core asset classes: domestic large cap equity and fixed income.

With these additions, Pax World now offers a comprehensive fund lineup spanning multiple asset classes and investment strategies.

Pax Balanced Fund Update

The Pax Balanced Fund converted to a fund of funds structure in December. It continues to have the same investment objective, portfolio management team, strategic asset allocation

UPDATED PAX WORLD FUND LINEUP

Active U.S. Equity

- Pax Large Cap Fund - **NEW**
- Pax Mid Cap Fund
- Pax Small Cap Fund

Smart Beta U.S. Equity

- Pax ESG Beta® Quality Fund
- Pax ESG Beta® Dividend Fund - **NEW**

Passive International Equity

- Pax MSCI International ESG Index Fund

Global Thematic Equity

- Pax Ellevate Global Women's Index Fund
- Pax Global Environmental Markets Fund

Asset Allocation

- Pax Balanced Fund

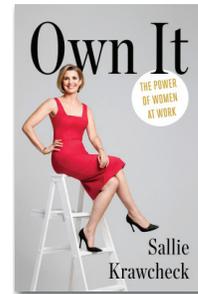
Fixed Income

- Pax Core Bond Fund - **NEW**
- Pax High Yield Bond Fund

Welcome Diederik Basch

Pax World is pleased to welcome Diederik Basch as a senior analyst on our small- and mid-cap investment team. Mr. Basch, formerly of RobecoSAM AG in Zurich, Switzerland, brings a strong combination of ESG and fundamental research experience on small- to mid-companies. His addition helps expand the research capacity of the team supporting the Pax Small Cap Fund and our recently launched Pax Mid Cap Fund.

Own It



Pax Ellevate Chair Sallie Krawcheck's new book *Own It: The Power of Women at Work* hits shelves—and Amazon.com—this month. Ms. Krawcheck shows how the world of work is changing in ways that

play to women's natural abilities and strengths. In the book, she offers women a new set of rules to take their careers to the next level. 🌱

¹Smart beta, also known as is factor investing, is a strategy wherein a portfolio of securities is over weighted, or tilted, toward certain factors—rather than market capitalization—in an effort to mitigate risk and/or deliver above market returns.

and expenses; however, now the Fund's asset allocation components are fully invested in Pax World Funds rather than a combination of individual securities and mutual funds.



What's Trending Now



Pax Ellevate (PXWEX) @PaxEllevate

"Women are investing in one another's success at a level unprecedented in human history"
— @salliekrawcheck



Pax World @PaxWorld

The @PaxWorld team celebrated our Best Companies To Work For in NH honor at #BreakfastwiththeBest @nhbsr @BusinessNHMag



Julie Gorte @jgorte

#ESG and Risk: Better #sustainability may mean lower risk for investors, reports @morningstarinc bit.ly/2eioGEX



Ellevate Network

@EllevateNtwk
Yes, @PaxEllevate! How Three Activists Confront Companies on Diversity and Prevail
buff.ly/2e01A31



Kathleen McQuiggan

@InvestInWomen
New research shows dramatic growth
#genderlensinv AUM

Shareholder Corner: Timely reminders for Pax World investors

Make the most of tax season

With the arrival of the New Year comes the task of preparing your previous year's tax returns. Like many investors, you may use this time to make prior-year Individual Retirement Account (IRA) contributions until April 15, 2017.

Keep in mind, however, that there are certain factors that can affect your eligibility and contribution limits to either the Traditional IRA or Roth IRA. If you are under 50 years of age for 2016 and 2017, typically you can contribute the lesser of 100% of your earned income or \$5,500. If you are 50 years of age or older before the end of 2016, you can contribute the lesser of 100% of your earned income or \$6,500 for 2016 and 2017.

Subject to eligibility factors, Traditional IRA contributions are generally made on a tax-deferred basis. That means you may be able to deduct some or all of your contribution from your taxable income. Taxes are typically paid when funds are withdrawn, presumably in retirement, when you may be in a lower

Important 2016 documents mailed and/or available online:

January 31, 2017: IRS forms combined 1099-DIV/B, 1099-R, 1099-INT, and 1099-Q

January 31, 2017 (online only): Qualified Dividend Income and Pass-Through Exemptions Information

April 30, 2017: IRS form 5498 ESA

May 31, 2017: IRS form 5498

1099-DIV reports taxable dividends and capital gains paid to non-retirement accounts; 1099-B reports redemptions from a non-retirement account and cost basis for covered shares; 1099-R reports redemptions from retirement accounts; 1099-INT reports taxable interest income earned on a non-retirement account; and 1099-Q reports redemptions from a Coverdell ESA; 5498-ESA reports Coverdell Education Savings Account contributions; and 5498 reports retirement account contributions.

tax bracket.

Conversely, Roth IRAs flip the script. Contributions to Roth IRAs are not tax deductible. After five years certain types of withdrawals, including those taken in retirement, can be made on a tax-free basis since those funds have already been subject to income tax.

For more information, see IRS Publication

590A, *Contributions to Individual Retirement Arrangements* at www.irs.gov, or call the IRS at 800.829.3676 to order a copy. 🌱

Please note that the information above does not constitute tax advice. State tax regulations may differ from federal tax regulations. Always consult your tax advisor before making any tax-related investment decision.

THREE WAYS SUSTAINABLE INVESTORS CAN HARNESS THE POWER OF SMART BETA CONTINUED from PAGE 2

ways to capture them consistently and persistently in a market-oriented portfolio.

We believe ESG factor-based investing is here to stay. Whether it is within the context of a broad market, narrow theme or in concert with financial factors, it's easier than ever for investors to harness the power of sustainable investing. 🌱

CFA® is a trademark owned by the CFA Institute.

¹Visit Pax World's Sustainable Investing Research page for a list of studies on the financial impact of ESG factors: <http://paxworld.com/about/sustainable-investing>

²Mozzaffar Khan, George Serafeim, Aaron Yoon, "Corporate Sustainability: First Evidence of Materiality," Harvard Business School Working Paper 15-073, 2015.

³The MSCI EAFE ESG Index is designed to measure the

performance of equity securities of issuers of developed countries around the world excluding the U.S. and Canada that have high Environmental, Social and Governance (ESG) ratings relative to their sector and industry peers, as rated by MSCI ESG Research annually. One cannot invest directly in an index.

⁴The Pax Sustainability Score is a proprietary ranking of companies' ESG performance.



Pax World Investments

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You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. For this and other important information, please obtain a fund prospectus by calling 800.767.1729 or visiting www.paxworld.com. Please read it carefully before investing.

An investment in the Pax World Funds involves risk, including loss of principal. Past performance does not guarantee future results.

RISKS: 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. Emerging market and international investments involve risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles, economic or political instability in other nations or increased volatility and lower trading volume. Investments in high yield bonds generally are subjected to greater price volatility based on fluctuations in issuer and credit quality. Yield and share price will vary with changes in interest rates and market conditions. Investors should note that if interest rates rise significantly from current levels, bond fund total returns will decline and may even turn negative in the short

term. There is also a chance that some of the fund's holdings may have their credit rating downgraded or may default. Funds that emphasize investments in mid-size and smaller companies generally will experience greater price volatility. Investing in non-diversified funds generally will be more volatile and loss of principal could be greater than investing in more diversified funds. Pax Sustainable Managers are multi-manager funds. The Funds' allocations may change due to market fluctuations and other factors. The Pax Mid Cap Fund, Large Cap Fund, Core Bond Fund and the ESG Beta® Dividend Fund are new and have a limited operating history.

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