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CEO NAMED ONE OF "21
LEADERS FOR THE 21ST
CENTURY" BY WOMEN'S
ENews

SHAREHOLDER CORNER

Market May Be Right for Balanced Funds, Once Again

Pax World Balanced Fund takes a long-term, thematic approach

Balanced funds are making a comeback. The once popular asset class, which had lost some of its appeal to investors over the past few years, has attracted \$7.1 billion in assets so far this year. That is a huge turnaround from 2011, when investors withdrew \$20 billion from the funds¹.

Why Balanced Funds Now?

Balanced funds may be attractive to investors unsettled by market volatility over the past few years. Their diversified mix of stocks and bonds—typically 60% stocks and 40% bonds—which can potentially reduce volatility, provides an option for those looking to get back into the stock market, or who are new to stock investing, or who simply want to reduce risk.

The Pax World Balanced Fund takes a thematic approach to investing. Portfolio Manager Chris Brown follows a disciplined strategy focused on long-term trends. The Fund seeks to invest in reasonably priced companies that are well-positioned to benefit from identified investment themes. Brown favors industry-leading, large-cap companies with strong long-term prospects, many of which may pay consistent dividends. The Fund's broad strategy parameters allow flexibility with regard to asset allocation, international exposure and market capitalization.

The bond portion of the Fund seeks to provide current income. Its focus on low duration² and high credit quality³ bonds aims to reduce volatility and preserve capital.

According to Brown, dividend yields are especially attractive in today's low growth economic environment and he expects them to play an increasingly important role in a stock's total return. "We anticipate low rates well into 2014 even with the Federal Reserve indicating low probability of an additional quantitative easing, unless the economy drops off significantly," says Brown.

The Pax World Balanced Fund's disciplined, consistent approach has resulted in solid long-term results (see chart on page 5), despite periods of market volatility⁴ and steep market declines.

Mr. Brown attributes the Fund's success to identifying and investing in long-term secular themes while using rigorous financial as well as Environmental, Social and Governance (ESG) analysis to find companies that may benefit from these themes.

Some of the investment themes Mr. Brown is currently focused on include:

- **Agriculture and commodities:** Interest in both are driven by emerging markets population growth and increased standard of living.
- **Technology mobility:** This is viewed as a long-term growth opportunity; Internet Protocol (IP) has been projected to experience significant growth over the next five years.

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Growing Demand is Stretching Global Water Supplies

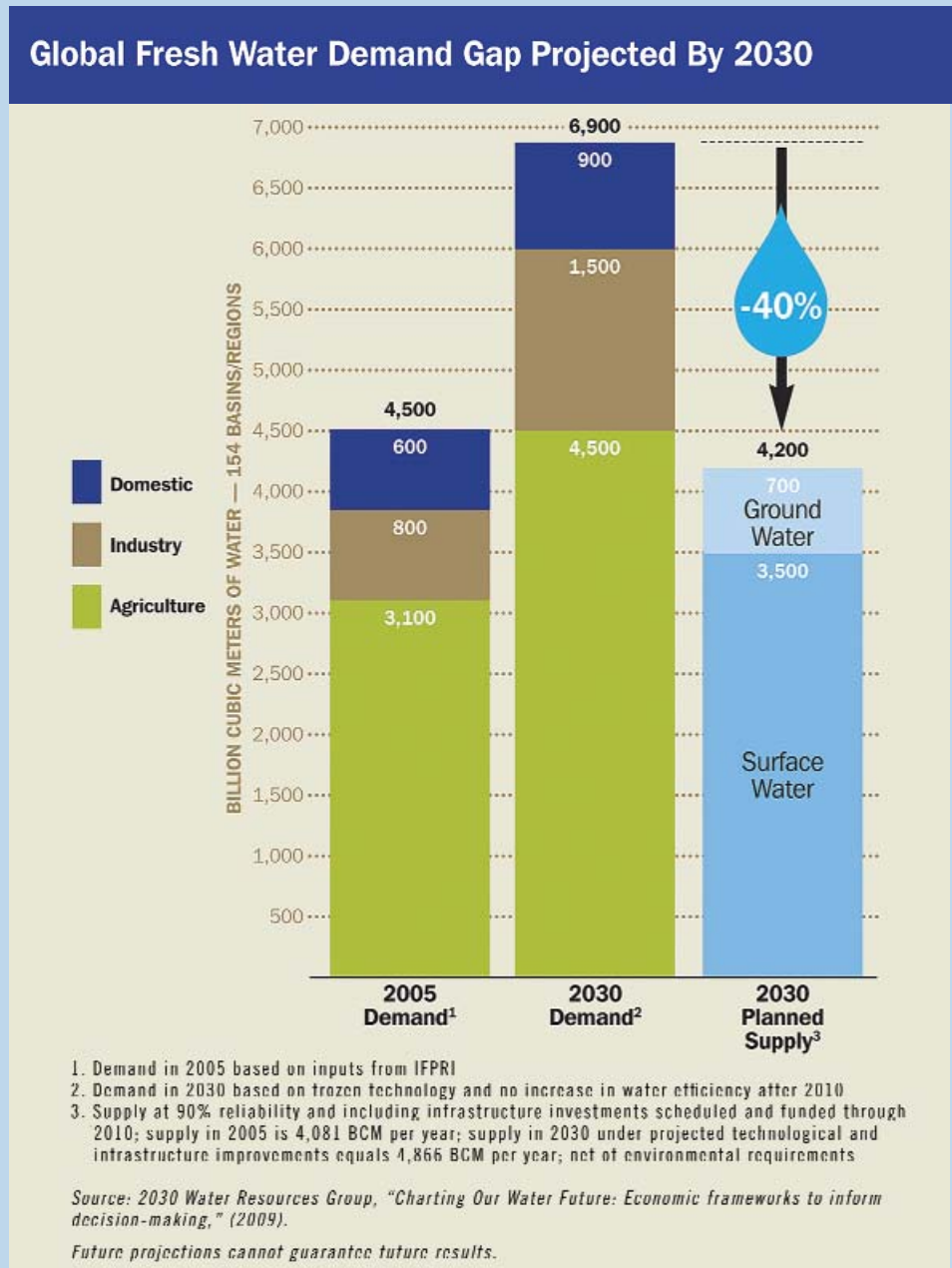
Many companies are beginning to acknowledge clean water as a strategic element of their operations

By Corey Johnson, Sustainability Research Analyst

Global demand for water is growing rapidly, and many companies are beginning to acknowledge clean water as a strategic element of their operations. According to a recent report published by the 2030 Water Resources Group, the world may face up to a 40% gap between available water sources and anticipated demand by the year 2030, with agriculture and industry being the two largest consumers.¹ Developing nations are expected to be particularly affected as middle classes expand and resource consumption grows. At Pax World, we believe that this emerging scarcity, coupled with the fact that water is not only a necessity of life but a major input to the production of many goods and services, creates potential investment opportunities, particularly in industries related to the delivery of clean water.

However, the threat of reduced availability or diminished quality of water also poses material risks to many businesses, especially those operating in water-scarce regions. In 2009, the Carbon Disclosure Project (CDP)—known primarily for its annual company surveys on greenhouse gas emissions—launched the CDP Water Disclosure, a similar initiative aimed to increase corporate disclosure of water-related risks and opportunities. According to the CDP's 2011 Water Disclosure Global Report, 59% of participating companies in the Global 500 indicated some level of water-related risk, and over one third of respondents have already suffered water-related business impacts.²

Water risks give rise to different financial and operational issues within each



industry and geographic region. There are several types of water-related risks, including lack of access to sufficient fresh water (drought), too much water (floods), water quality issues and higher water temperatures, according to the Intergovernmental Panel on Climate Change (IPCC).³ All of them have

implications for investors.

The risks associated with water may affect a company's operations anywhere along its value chain—from suppliers to end users. Recently, drought conditions across the southern U.S. have caused the

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Pax World Announces Early Successes in 2012 Proxy Season

Pax World Management's 2012 Proxy Season was off to a strong start, with the withdrawal of two shareholder proposals after receiving positive responses from both companies.

Pax World's shareholder resolution filed with Roper Industries¹ requested that the company take reasonable steps to ensure that women and minority candidates were considered for open director positions, and to report to shareholders on its efforts to assure board diversity. Pax World withdrew its proposal after the company agreed to amend its Corporate Governance Guidelines and Nomination and Governance Committee Charter to include gender and ethnicity as criteria for selection of any new director, and to periodically review board composition.

“Board diversity is something that Pax World is deeply committed to.”

“Pax World sees board diversity as an indicator of sound management, and a characteristic of well-managed, forward-thinking companies. We are pleased and want to commend Roper Industries for taking this step to formally affirm its commitment to board diversity,” says Heather Smith, Lead Sustainability Research Analyst, Pax World.

“Board diversity is something that Pax World is deeply committed to,” continued Ms. Smith. “That is why we launched our *Say No to All Male*

Boards campaign last year, and have joined forces with the 30% Coalition, 2020 Women on Boards and other women's groups advocating for gender equality in boardrooms and business.”

Pax also withdrew a resolution filed with Target Corp.¹ concerning disclosure of lobbying activities and expenses. This resolution was part of a larger effort, led by the American Federation of State, County and Municipal Employees and Walden Asset Management, to bring greater transparency and accountability to corporate political contributions and activities, including lobbying. After a productive dialogue, Target agreed to provide additional disclosure of its positions and activities on the public policy issues it regards as most critical to the company.

“Corporate lobbying is an important force shaping public policy, and shareholders have a right to be informed about how the companies they own are spending money to influence politicians and political institutions,” said Laura Huober, Sustainability Analyst, Pax World. “Nearly 90 percent of all the money corporations spend on politics goes to lobbying, and this kind of money can have a significant impact on public policy. We are pleased that Target Corp. has agreed to greater disclosure and transparency in this regard.” ■

¹As of 3/31/12, Roper Industries, Inc. was 1.4% of the Pax World Growth Fund and 1.8% of the Pax World Global Green Fund; Target Corp. was 0.5% of the Pax World Balanced Fund. Holdings are subject to change.

Pax World Fund Earns Morningstar 4-Star Rating

Pax World Growth Fund (PXWGX) as of May 31, 2012



Overall Morningstar Rating™

(Among 1,520 Large Growth Funds based on risk adjusted returns)

Learn more about the Fund at www.paxworld.com/growth

Past performance is no guarantee of future results.

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. Investments in smaller companies generally will experience greater price volatility. 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.

Morningstar Ratings as of 5/31/12 based on risk adjusted returns. Morningstar Ratings™ are based on risk-adjusted 3-, 5-, and 10-year (if applicable) returns, and past performance is no guarantee of future results. For the 3-, 5- and 10-year time periods the Pax World Growth Fund Individual Investor Class was rated 4-stars out of 1,520 funds, 3-stars out of 1,311 funds and 4-stars out of 854 funds, respectively. The Overall Morningstar Rating™ for a fund is derived from a weighted average of the performance figures associated with its 3-, 5, and 10-year Morningstar Rating™ metrics. Ratings are subject to change every month. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.)

Pax World President and CEO Named one of “21 Leaders for the 21st Century” by *Women’s eNews*

Pax World CEO Joe Keefe was recently named by *Women’s eNews* as one of “21 Leaders for the 21st Century.” Each year, *Women’s eNews* honors twenty women and one male for having demonstrated their commitment to improving the lives of women and girls and the capacity to continue to improve the future for all. This year Keefe was the sole male honoree.

Women’s eNews is an award-winning nonprofit news service covering issues of particular concern to women and providing women’s perspectives on public policy. The 21 Leaders are divided into three categories: Seven Who Catalyze Culture; Seven Who Engender Ballots; and Seven Who Leverage Power. Keefe is recognized as a leader who leverages power for Pax World’s role in using its share ownership in major corporations to press for an increase in the number of

women on corporate boards.

“Gender equality is not just an urgent moral imperative but also an urgent economic imperative, critical for businesses and therefore for investors.”

“I’m honored to accept this award,” says Keefe. “Gender equality is not just an urgent moral imperative but also an urgent economic imperative, critical for businesses and therefore for investors. Studies have shown that where women are better represented on corporate boards and in corporate management, companies perform better, so this is something investors need to care about.”

Pax World has long included diversity analysis and gender criteria into the research it conducts for its mutual funds and also manages the Pax World Global Women’s Equality Fund (PXWEX), the only mutual fund in America that focuses on investing in companies that are global leaders in advancing gender equality and women’s empowerment. Pax World also opposes all-male corporate board slates and last year launched a *Say NO to All Male Boards* campaign urging other institutional investors to follow Pax’s lead in adopting proxy voting policies opposing all-male boards.

Keefe is also the Chair of the Board of Women Thrive Worldwide (www.womenthrive.org), a Washington, DC-based non-profit advocating for shaping U.S. development assistance and trade policy to benefit women and girls living in poverty around the globe. ■

GLOBAL WATER SUPPLIES CONTINUED FROM PAGE 2

price of cotton to soar, leading to financial implications in the apparel sector. Conversely, severe flooding in Thailand during 2011 interrupted manufacturing operations for major auto makers and electronics companies, among others. Water quality also raises a unique set of risks, particularly relating to regulatory requirements. As an example, concerns over natural gas drilling and its impact on local water supplies have led to bans on hydraulic fracturing, a controversial drilling method, in France and the state of Vermont. Such regulations have introduced new material risks to the energy industry.

As part of our Sustainable Investment

strategy—the full integration of Environmental, Social and Governance (ESG) factors into investment analysis and decision making—Pax World seeks to invest in companies that have prepared for the regulatory and operational risks of water-related issues. Pax World’s Sustainability Research Department uses a wide array of information to evaluate a company’s commitment to reducing its water impact, including compliance with regulations (The Clean Water Act, in particular) and a company’s own water disclosure, including, but not limited to, data on water consumption, wastewater discharges, spills, recycling and reduction goals.

Pax World believes companies that approach water as a strategic resource may be better positioned to navigate the anticipated global water shortage in the coming decades. As investors, we actively seek the opportunities associated with companies that understand and mitigate these risks. ■

The issues highlighted above are illustrative and do not necessarily reflect the full range of the social, environmental or governance criteria Pax World may apply in analyzing a particular security for investment. The availability of information about a company, issues associated with a particular industry, changing social conditions or other circumstances may affect the manner in which Pax World’s sustainability criteria are applied in a particular situation.

¹http://www.mckinsey.com/App_Media/Reports/Water/Charting_Our_Water_Future_Full_Report_001.pdf (page 6), 2009

²<https://www.cdproject.net/CDPResults/CDP-Water-Disclosure-Global-Report-2011.pdf> (page 6), 2011

³Intergovernmental Panel on Climate Change, “Climate Change 2007: Impacts, Adaptation and Vulnerability,” p. 175., 2007

- **Dividend Growth:** Due to strong balance sheets and cash flow, many companies are raising their dividends despite the current economic outlook.
- **Energy Efficiency:** Industrial companies are a big player in this space, from climate control technology to friction management.

ESG is the Difference

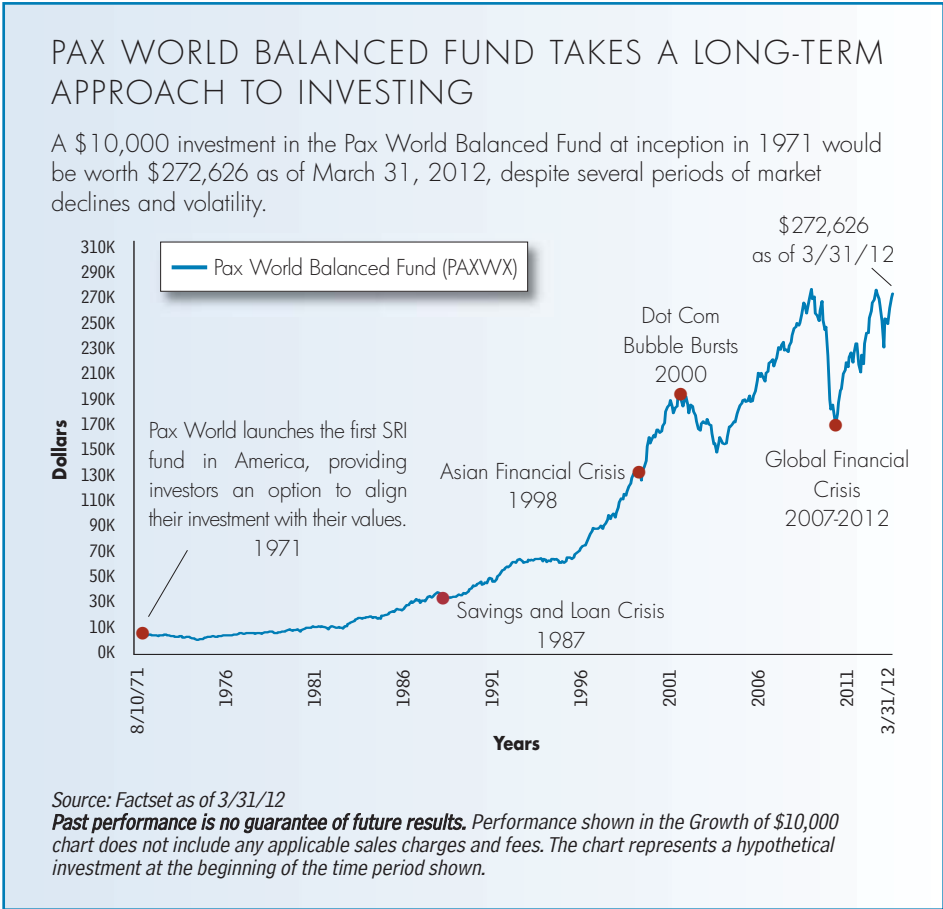
The Pax World Balanced Fund, like all Pax World funds, follows an investment approach called Sustainable Investing—the full integration of Environmental, Social and Governance (ESG) factors into investment analysis and decision making. It combines rigorous financial analysis with equally rigorous ESG analysis, which provides an increased level of scrutiny that helps construct portfolios made up of companies that we believe:

- are leaders in their industries
- are better-managed, more forward-thinking
- are better at anticipating and mitigating risk
- meet positive standards of corporate responsibility
- focus on the long term

By investing in these types of companies, the Pax World Balanced Fund seeks to reduce risk and deliver competitive long-term investment performance. Explains Brown: “The use of ESG factors can be incredibly valuable as a risk management tool.”

For more information on the Pax World Balanced Fund visit www.paxworld.com ■

Past performance does not guarantee future results. 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. Yield and share price will vary with changes in interest rates and market conditions. Investors should note that if



Balanced Fund Performance as of March 31, 2012

RETURNS (%) ⁵	Cumulative Return (%)		Average Annual Return (%)				Since Inception
	3-month	1-year	3-year	5-year	10-year		
Pax World Balanced Fund (PAXWX)	9.14	1.64	14.79	1.71	4.47	8.47	

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. Inception date is 8/10/71.

Total annual Balanced Fund operating expenses, gross of any fee waivers or reimbursements, are 0.95% for the Individual Class shares.

¹Interest rates rise significantly from current levels, bond fund total returns will decline and may even turn negative in the short term. Mortgage related securities tend to become more sensitive to interest rate changes as interest rates rise, increasing their volatility. There is also a chance that some of the fund’s holdings may have their credit rating downgraded or may default. Investments in smaller companies generally will experience greater price volatility. 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. Derivatives involve special risks and may result in losses.

²Source: SmartMoney.com. “Investors Adopt More Balanced Approach.” March 21, 2012.

³Duration is a measure of a security’s price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

⁴Credit quality ratings are by Standard & Poors and are measured on a scale from AAA (highest) to D (lowest).

⁵Volatility a statistical measure of the dispersion of returns for a given security or market index.

⁶Figures include reinvested dividends, capital gains distributions, and changes in principal value.

Shareholder Corner

It's Summer—Time to Set It and Forget It

Summer should be a time for fun in the sun with family and friends. But it can be easy to neglect your investment portfolio during those busy months. Ensure your savings are taken care of year round with an Automatic Investment Plan (AIP).

With a Pax World AIP—available for all Pax World funds—you “set it and forget it,” by investing a designated dollar amount at regular intervals. This helps you to pay yourself first, an effective strategy that can help you save for the future—faster.

To start an AIP, download and complete the Shareholder Services form at www.paxworld.com. If you have a bank account attached to your Pax World account already, you can also establish an AIP online.

Combine Accounts for your Quarterly Statement/Online Account Access

Your quarterly Pax World Investor Statement should automatically combine all accounts registered under the same Tax ID number and exact address (including Zip code extension). If you want to combine accounts in your household that are not listed under the same Tax ID, Investor Services can help you determine what is needed. If all of the accounts you wish to combine are controlled by the same individual, you may be able to request a combined statement over the telephone. If there is more than one authorized individual across the accounts you wish to combine, please download



and complete the Shareholder Mailing Form at www.paxworld.com.

Please note: any combinations made to your quarterly account statements also will combine accounts under your Online Account Access User ID. Pax World also offers E-delivery, so you can avoid receiving paper statements altogether by enrolling in Online Account Access and electing E-delivery for your quarterly statements (see below).

Investor Service Representatives are available at 800.372.7827 Monday – Friday 8am – 6pm ET to answer any questions you have about AIP or combined statements.

Automatic investment plans do not assure a profit and do not protect against loss in declining markets.



Help Save a Tree; Sign-up for E-Delivery

It's easy to sign-up today. Go to www.paxworld.com and Log In to Online Account Access. Choose Electronic Delivery from the Profile Maintenance menu on the left, enter your email address and select your delivery method for Account Statements, Prospectuses, Annual and Semi-Annual Reports, Tax Forms and Proxy Materials. Pax World changed our online service provider on March 5th. If you had a User ID and password prior to March 5th and have not visited online access since then to create a new User ID, you will need your Account Number and Social Security Number to re-register.

Investor Service Representatives are available at 800.372.7827 Monday – Friday 8am – 6pm ET to answer any questions you have about E-delivery.

Important Disclosures Please Read

Before investing in a Pax World Mutual Fund you should carefully consider the fund's objectives, risks, charges and expenses. For this and other important information, please obtain a Fund prospectus by calling 800.767.1729. Please read the prospectus carefully before investing.

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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