PAX HIGH YIELD BOND FUND COMMENTARY

Q4 2016

Fund Overview

An opportunistic, yet conservative, high yield bond fund driven by a sustainable investing approach.

Investment Process

Fundamental, bottom-up security selection

Investment Style

High Yield

Benchmark

BofA ML U.S. High Yield-Cash Pay-BB-B Index[1]

Portfolio Characteristics as of 12/30/16

	Fund	Benchmark
Effective Duration[3]	4.03%	4.15%
Years to Maturity[4]	6.57	7.20
30 Day SEC Yield		
Individual	5.26%	
Class A	5.26%	
Institutional	5.51%	
Class R	5.02%	

Portfolio Investment Team

Peter Schwab, CFA®, Senior Vice President and Portfolio Manager

Kent Siefers, Assistant Portfolio Manager

Phyllis Chambers Camara, CFA®, Senior Analyst

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Performance and Portfolio Update

- The Fund outperformed the BofA Merrill Lynch U.S. High Yield - Cash Pay - BB-B (Constrained 2%) Index[1] by 1.37% during the fourth quarter. The performance was driven by strong credit selection, namely outperformance in the Commercial Service, Retail and Technology sectors. The Fund also benefited from exposure to Chaparral Energy, an Energy and Production company, which is undergoing an out-of-court restructuring.
- The High Yield bond market continued to perform well in the fourth quarter as credit spreads[2] continued to compress significantly resulting in a very strong 2016 total return.
- After a very strong year and relatively tight credit spreads, we are becoming more defensive despite the good economic outlook. We believe much of the "Trump rally" is behind us and expectations for higher economic activity levels and theoretical improved corporate profits are mostly priced in at this point. Despite these concerns, current spread levels are reasonable compensation given the benign default outlook.
- Liquidity in the market is adequate and general commodity supply/demand dynamics have improved after several years of adjustments but still remains a risk.

continued

Returns (%)[5]

As of December 30, 2016

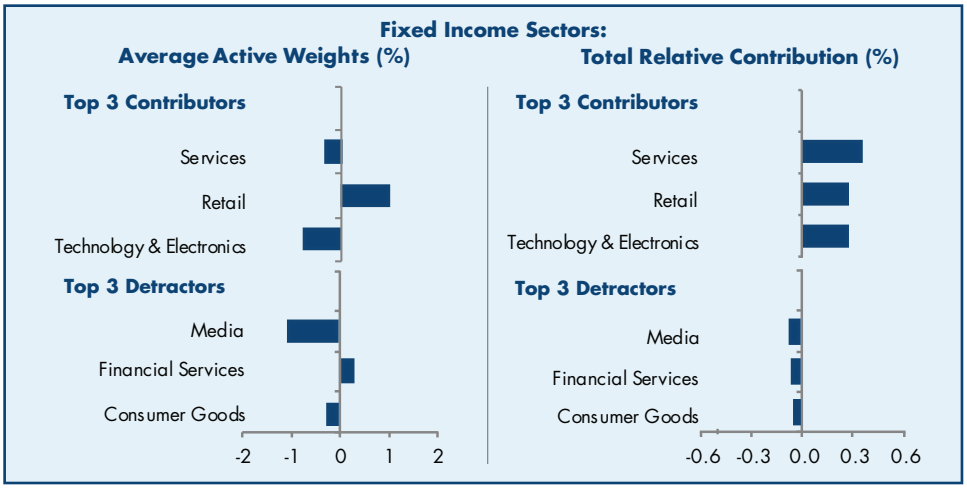
				Average Annual Returns (%)			
	3-month	YTD	1-year	3-year	5-year	10-Year	Since Inception
Pax High Yield Bond Fund (Without maximum sales charge)							
Individual Investor Class (PAXHX) (Inception Date: 10/8/99)	2.63	13.81	13.81	1.89	5.09	5.33	5.43
Class A (PXHAX) (Inception Date: 5/1/13)[6]	2.63	13.80	13.80	1.93	5.12	5.34	5.43
Institutional Class (PXHIX) (Inception Date: 6/1/04)[7]	2.55	13.96	13.96	2.13	5.35	5.55	5.60
BofA Merrill Lynch U.S. High Yield - Cash Pay - BB-B (Constrained 2%) Index[1]	1.26	14.76	14.76	4.89	7.04	6.95	—
Lipper High Yield Bond Funds Index[8]	1.89	14.54	14.54	3.67	6.72	5.92	—
Pax High Yield Bond Fund (With maximum 4.50% sales charge) Class A (PXHAX) (Inception Date: 5/1/13)	-1.95	8.76	0.37	4.15	4.86	5.76	5.15

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. To obtain performance for the most recent month-end call 800.767.1729 or visit www.paxworld.com.

As of 4/1/16 prospectus, total annual High Yield Bond Fund operating expenses, gross of any fee waivers or reimbursements (excluding Acquired Fund fees and expenses), for Individual Investor Class, Class A, and Institutional Class shares are 0.96%, 0.96% and 0.71%, respectively.

Performance and Portfolio Update, continued

- We are positioned in higher quality names that could benefit from the U.S. recovery, favoring the Consumer Goods, Real Estate and Transportation sectors. We are underweight the Technology, Chemicals and Media sectors where we do not see favorable relative value given cyclicality and other secular challenges.



Past performance is no guarantee of future results.

RISKS: The Fund can invest in "junk bonds" which are considered predominately speculative with respect to the issuer's continuing ability to make principal and interest payments when due. 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.

Top Ten holdings as of 12/30/16: HCA, Inc., 5.875%, 2/15/26 1.5%, Kennedy-Wilson, Inc., 5.875%, 04/01/24 1.2%, Charlotte Russe, Inc., 6.750%, 05/21/19 1.2%, Syniverse Holdings, Inc., 9.125%, 01/15/19 1.1%, Ahern Rentals, Inc., 7.375%, 05/15/23 1.1%, Michael Baker Holdings LLC, 8.875%, 04/15/19 1.1%, Frontier Communications Corp., 10.500%, 9/15/22 1.1%, Sprint Communications, Inc., 8.375%, 8/15/17 1.1%, Altice Financing SA, 7.500%, 5/15/26 1.0% and Sirius XM Radio, Inc., 5.375%, 4/15/25 1.0%. Holdings are subject to change.

[1] The BofA Merrill Lynch U.S. High Yield - Cash Pay - BB-B (Constrained 2%) Index tracks the performance of BB- and B-rated fixed income securities publicly issued in the major domestic or eurobond markets, with total index allocation to an individual issuer limited to 2%. One cannot invest directly in an index.

[2] A credit spread is the difference in yield between a U.S. Treasury bond and a debt security with the same maturity but of lesser quality.

[3] Effective Duration 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.

[4] Years to Maturity (weighted average) is the number of years until the bond matures and/or expires.

[5] Figures include reinvested dividends, capital gains distributions, and changes in principal value.

[6] The performance information shown for Class A represents the performance of the Individual Investor Class shares for the period prior to Class A inception. Expenses have not been adjusted to reflect the expenses allocable to Class A shares. Class A inception date return since May 1, 2013 is 2.34% (annualized). A 1.00% CDSC (contingent deferred sales charge) may be charged on any shares sold within 18 months of purchase over $1 million.

[7] The performance information shown for Institutional Class shares represents the performance of the Individual Investor Class shares for the period prior to Institutional Class inception date (June 1, 2004). Expenses have not been adjusted to reflect the expenses allocable to Institutional Class shares. If such expenses were reflected, the returns would be higher than those shown. Institutional Class shares average annual return since June 1, 2004 is 6.21% (annualized).

[8] The Lipper High Yield Bond Funds Index tracks the results of the 30 largest mutual funds in the Lipper High Yield Bond Fund Average. The Lipper High Yield Funds Fund Average is a total return performance average of mutual funds tracked by Lipper, Inc. that aim at high (relative) current yield from fixed income securities, have no quality or maturity restrictions and tend to invest in lower grade debt issues. The Lipper High Yield Fund Index is not what is typically considered an "index" because it tracks the performance of other mutual funds rather than changes in the value of a group of securities, a securities index or some other traditional economic indicator. One cannot invest directly in an index.

The statements and opinions expressed are those of the author as of the date of this report. All information is historical and not indicative of future results and subject to change. This information is not a recommendation to buy or sell any security. Past performance does not guarantee future results.

You should consider Pax Funds' 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 Funds involves risk, including loss of principal.

Pax World Investments

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