

INSIDE

PAX WORLD BALANCED
FUND: A SMART CHOICE FOR
TODAY'S VOLATILE MARKETS

WOMEN THRIVE WORLDWIDE
CELEBRATES POLICY SUCCESSSES
IN 2012

SHAREHOLDER SERVICES

IMPORTANT 2012 TAX
INFORMATION AND DATES



Dear Fellow Shareholders,

In the investment world, 2012 was a year of uncertainty. Markets remained fairly volatile, the economy continued to stumble through

its anemic recovery, businesses were reluctant to hire, money remained on the sidelines, and “uncertainty” seemed to be the one-size-fits-all explanation for why things weren’t getting any better. Uncertainty about Europe’s fiscal situation, uncertainty about slowing growth in China, the U.S. election, the so-called “fiscal cliff,” changes in tax policy... Every piece of good news, and there was some—household debt has fallen, consumer sentiment and spending are ticking upward, home prices are recovering, banks are starting to lend after repairing their balance sheets—was greeted with a big, “Yes, but... there’s still so much uncertainty.”

I am actually encouraged about the general direction of markets as well as the economy as a whole. While the outcome is uncertain as I write at the end of November, I can’t believe that Congress, which has already pointed the fiscal gun at its own head, would choose to pull the trigger and usher in a wholly unnecessary, self-inflicted recession simply because it cannot see its way past partisan wrangling over taxes paid (or not paid) by the wealthiest Americans and the obvious need for long-term entitlement reform. We shall have to see. My strong sense though is that, should Congress and the President avoid budget sequestration while simultaneously agreeing on earnest long-term deficit reduction and economic growth packages, this would send the mother of all positive signals to the market. Much of the uncertainty, much of the delayed hiring and pent-up demand, much of the cash on the

sidelines, would suddenly dissipate. A full-fledged recovery could really begin to take shape. That, at least, is my hope.

In the meantime, our view at Pax World is that sustainable investors should stay focused on the long-term even as companies, markets and policy makers too often allow the short-term to dominate. This preoccupation with short-term gains at the expense of more meaningful long-term metrics is taking an increasing toll. 2012, as we know, was also the year of Hurricane Sandy. The environmental fallout from our current economic paradigm is becoming acute. All of earth’s natural systems—air, water, minerals, oil, forests and rainforests, soil, wetlands, fisheries, coral reefs, the oceans themselves—are in serious decline. Climate change (and the altered weather patterns associated with it) is just one symptom. “The problem,” as Australian ecologist Paul Gilding has written, “is the delusion that we can have infinite quantitative economic growth, that we can keep having more and more stuff, on a finite planet.”

Moreover, our ability to address climate change and other environmental and resource challenges is being hampered by our long-time underinvestment in infrastructure. My own view is that the sustainable investment industry should be sounding the alarm about climate change, resource scarcity and the need for a massive public/private investment in clean energy, efficiency technologies and modernized infrastructure. The age of resource scarcity and the need for efficiency solutions is upon us. At Pax World, we offer a fund—the Global Environmental Markets Fund (formerly the Global Green Fund)—whose investment focus is precisely that.

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The Pax World Balanced Fund: A Smart Choice For Today's Volatile Markets

Since 2000, financial markets have become increasingly unpredictable. Daily price movements of 4% or more have occurred nearly six times as often as they did over the previous four decades.¹

These unpredictable markets have created a challenging environment for many investors looking for consistent returns. And while it can be tempting to try to switch investments during periods of volatility, savvy investors recognize the importance of maintaining a long-term perspective.

Pax World Balanced Fund investors who have stayed the course through various ups and downs have enjoyed positive results over a period of more than 40 years.² Long-term investors might consider the following:

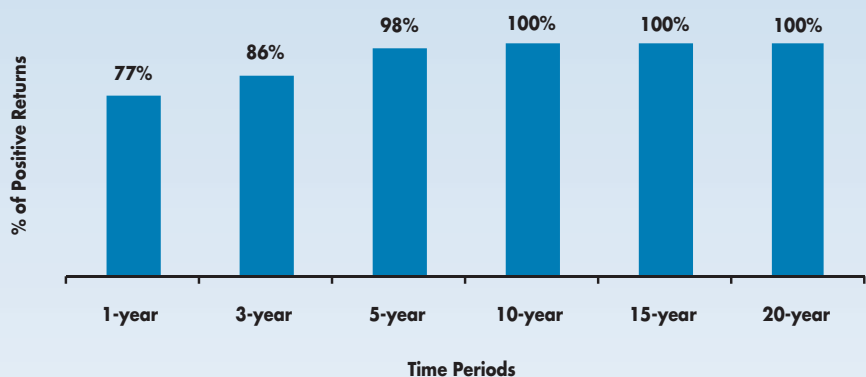
- The Fund has lower volatility relative to equities.³
- By diversifying across equity and fixed income securities, the Fund seeks to provide a combination of income and stable growth.⁴
- It offers the convenience of an all-in-one fund that provides exposure across equity and bond markets, both domestically and internationally.
- It pursues a low-turnover approach with benefits that include reduced trading costs and greater tax efficiency.⁵

Like all Pax World funds, the Balanced Fund is driven by a Sustainable Investing approach—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

FOCUSING ON LONG-TERM INVESTMENT GOALS INCREASES THE PROSPECTS FOR POSITIVE RETURNS

The Pax World Balanced Fund has produced positive returns for 98% of the 5-year rolling periods and 100% of the 10-, 15- and 20-year rolling periods since inception* (08/10/1971).

Percentage of rolling periods since inception that Pax World Balanced Fund has generated positive returns. – as of 9/30/12



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.

Average annual returns for the Individual Investor Class for period ending 09/30/12. Figures include reinvested dividends, capital gains distributions, and changes in principal value. The returns were: 1 year: 18.41%, 5 year: 0.37%, 10 year: 6.18%, Since Inception (08/10/1971): 8.38%.

Total annual Balanced Fund operating expenses, gross of any fee waivers or reimbursements are 0.95% for the Individual Investor Class, 0.70% for the Institutional Class and 1.20% for the R Class as of 12/31/2011.

**The rolling returns were calculated using Factset. A rolling-return is a continuous return based on a specific time period. All rolling returns used were for the Pax World Balanced Fund - Individual Investor Class (PAXWX), which has an inception date of 08/10/1971.*

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, better at anticipating and mitigating risk, and meet positive standards of corporate responsibility.

The Pax World Balanced Fund is managed by Pax World's Chief

Investment Officer Chris Brown. Mr. Brown's long-term investment approach includes flexible parameters that enable him to target specific regional or sector growth opportunities within the overall broader market; adjust the Fund's asset allocation mix based on changing market conditions; seek income to boost total returns through fixed income and

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dividend producing stocks; and pursue both domestic and international opportunities.

Mr. Brown has a long-term tenure as manager for the past 13 years. During that time he has maintained his focused approach, investing in reasonably priced companies with high growth potential that he believes to be well-positioned for long-term capital appreciation.

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

Past performance does not guarantee future results.

¹Market Swings Are Becoming New Standard. *The New York Times*, September 11, 2011.

²Since its inception, the Pax World Balanced Fund has experienced periods of negative returns.

³Volatility is measured by standard deviation. Standard deviation measures a fund's variation around its mean performance; a high standard deviation implies greater volatility. As of 09/30/2012, the Pax World Balanced Fund – Individual Investor Class (PAXWX) 3-year standard deviation is 13.01% vs. the S&P 500 Index 15.36%. The S&P 500 Index is an unmanaged index of large capitalization common stocks. Investors cannot invest directly in any index.

⁴Diversification does not eliminate the risk of experiencing investment losses.

⁵The Fund is not managed with an objective to avoid capital gains distributions.

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 interest 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.

Women Thrive Worldwide Celebrates Policy Successes in 2012

Since its inception in 1998, Women Thrive Worldwide (www.womenthrive.org) has worked hard to ensure that women and girls around the world have the ear of our nation's decision-makers in Washington, D.C. The organization's goal is to encourage our country's foreign policy and international assistance programs to invest in women so they can reach their full potential. This year, Women Thrive Worldwide achieved some major breakthroughs.

The new *United States Strategy to Prevent and Respond to Gender-based Violence Globally* puts the full weight of the U.S. government behind programs that aim to end violence against women in developing countries.

The new policy on *Gender Equality and Female Empowerment* commits all of our country's international assistance programs to taking women and girls' unique needs into account. Whether it's economic development, health, education, food security or disaster response: women would be at the center of the programs.

Women Thrive Worldwide has advocated for these policies for years, and it has been gratifying to see its hard work pay off this year. But in some ways, Women Thrive Worldwide is just at the starting line. In 2013, the organization will work with partner



Ritu Sharma moderates a panel at Women Thrive Worldwide's International Women's Day event featuring actor and activist Maria Bello, Catholic Relief Services' Sean Callahan, and former first lady of Somaliland Edna Adan Ismail. Photo courtesy of Women Thrive Worldwide

organizations around the world to ensure that the policies that have been created are actually implemented and make a difference in women's lives. Because without that, policies are just words on a piece of paper.

Women Thrive Worldwide is part of the Pax World Global Citizens Program. The Program enables Pax World shareholders to earmark portions of their dividends and/or capital gains as a contribution to one of two non-profit organizations that are working to alleviate poverty, empower women and promote sustainable development around the globe. Learn more at www.paxworld.com/about-pax-world/global-citizen. ■

ALPS Distributors, Inc. is not affiliated with Women Thrive Worldwide.

A YEAR-END LETTER FROM JOSEPH F. KEEFE, PRESIDENT AND CEO CONTINUED FROM FRONT PAGE

The fundamental premise underlying sustainable investing is that business corporations and markets need to alter their focus from maximizing short-term profit to maximizing long-term value, and that long-term value must expressly include the societal benefits associated with or derived from economic activity.

The connections between economic output and ecological/societal health should not be incidental, let alone negative, but must be expressly and positively linked. At Pax World, we remain committed to this approach, which in the long run we think best serves investors, society and the planet. ■

Shareholder Corner

Are you moving? Have you changed your E-mail address?

If the U.S. Postal Service returns your mail as undeliverable, or there is no activity in your account within the time period specified by applicable state law, your account may be closed and the proceeds transferred to the appropriate state. Pax World works with The Keane Organization to look for updated addresses for “lost shareholders.” If you receive a notice asking you to confirm your new address, please respond to either Pax World or Keane to update your account.

Keeping your e-mail address current allows Pax World to send you our *Connection* newsletter, as well as periodic notices about our funds, via e-mail.

To verify that Pax World has your most current mailing address, phone number and e-mail address, log on to our online access at www.paxworld.com or call 800.372.7827, Monday – Friday, 8 a.m. – 6 p.m. EST.

Planning for an Active Retirement?

With people living longer, more active lives, saving for retirement has never been more important.

An IRA is one of the most popular types of retirement savings accounts available. Below are some general contribution guidelines for both Traditional and Roth IRAs:

If you are under 50 years of age at the end of 2012, you can contribute the lesser of 100% of earned income or \$5,000. For 2013, this limit increases to \$5,500.

If you are 50 years of age or older before the end of 2012, you can contribute the lesser of 100% of earned income or \$6,000. For 2013, this limit increases to \$6,500.

This limit can be split between a Traditional IRA and a Roth IRA. The maximum deductible contribution to a

Traditional IRA and the maximum contribution to a Roth IRA may be reduced depending on your modified adjusted gross income.

With a Traditional IRA, you may be able to deduct some or all of your contributions, depending on your circumstances. You pay taxes only when funds are withdrawn, presumably in retirement, when you may be in a lower tax bracket.

Contributions to a Roth IRA are not deductible, but after five years certain types of withdrawals can be made on a tax-free basis.

Open your IRA account or make a contribution using Online Account Access at www.paxworld.com, or for more information call Investor Services at 800.372.7827. ■

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

At Your Fingertips— Important 2012 Tax Information and Dates

Deadline for a 2012 IRA contribution: April 15, 2013

2012 Traditional and/or Roth IRA Contribution Limits: \$5,000/\$6,000 age 50 or older (For 2013 contributions, this limit increases to \$5,500/\$6,500 age 50 or older.)

IRS form 1099-R, 1099-Q, combined 1099-DIV/B*, 1099-INT mailing deadline and available ONLINE (available to download): January 31, 2013

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

*Beginning in 2012, Cost Basis information will be reported on IRS form 1099-B.

Qualified Dividend Income and Pass-Through Exemptions Information

ONLINE: January 31, 2013

IRS form 5498 mailing deadline: May 31, 2013

IRS form 5498 ESA mailing deadline: April 30, 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.

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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