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PAX WORLD LAUNCHES PAX MSCI INTERNATIONAL ESG INDEX FUND



Dear Fellow Shareholders,

As 2014 unfolds, we can only hope that the somewhat tepid economic recovery not only proves durable but begins to be felt on Main Street as well

as Wall Street.

2013 certainly underscored the fact that financial markets and the underlying economy are not always in sync. This disconnect may in fact be worsening. Continued high levels of unemployment and anemic economic growth uncomfortably co-exist alongside outsized market gains the likes of which we have not seen in many years. The returns delivered by financial markets simply are not as widely distributed as would be the benefits of a true economic recovery. Thus, some Americans have seen their investment portfolios grow while the vast majority of Americans have seen their standard of living remain static, or even worsen. A growing chorus of concern about widening economic inequality previews the policy debates that may dominate 2014.

Globally, markets generally trailed the strong U.S. recovery, although there is some sentiment going into 2014 that we will see markets continue to recover in Europe as well as in other parts of the globe. At Pax World, we still believe that a globally diversified portfolio constitutes the best investment strategy going forward. Thus, we have tried to provide our investors with global exposure across asset classes and investment themes while also integrating meaningful environmental, social and governance (ESG) standards into all our portfolios.

In 2013, we took some additional steps to “green” our

investment portfolios. Our Global Environmental Markets Fund (PGRNX), which invests in resource optimization solutions across energy, water, waste and food & agriculture sectors, has always been fossil fuel free but now we have made it carbon neutral as well. We purchase carbon offsets that offset the greenhouse gas emissions of the companies in the portfolio, adjusted by the proportion of the company's equity that the fund owns. We also benchmarked the carbon intensity of our five largest equity portfolios this past year, and are putting in place a process to reduce the carbon intensity of our portfolios over time.

At Pax World, we still believe that a globally diversified portfolio constitutes the best investment strategy going forward.

We also took steps to improve our ESG research process in 2013 so that we can better assess and measure the contribution that key sustainability indicators are making to both the risk and performance profiles of our funds. We continue to believe that companies

with strong sustainability or ESG characteristics can deliver competitive financial performance as well as positive social and environmental outcomes over time. We are determined to prove out this investment thesis and we hope that persuading investors of the efficacy of sustainable investing strategies can help grow our industry while improving the social and environmental performance of companies and markets.

As mentioned, Pax World offers one fossil fuel-free and carbon neutral fund. During 2013, we took additional steps to address climate change, and specifically carbon risk, in connection with some of our other portfolios. First, we benchmarked the carbon intensity of our largest equity portfolios so that we can begin to plan for meaningful reductions of such carbon intensity over time. Then, in May

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Pax World Small Cap Fund adapts as market forces shift

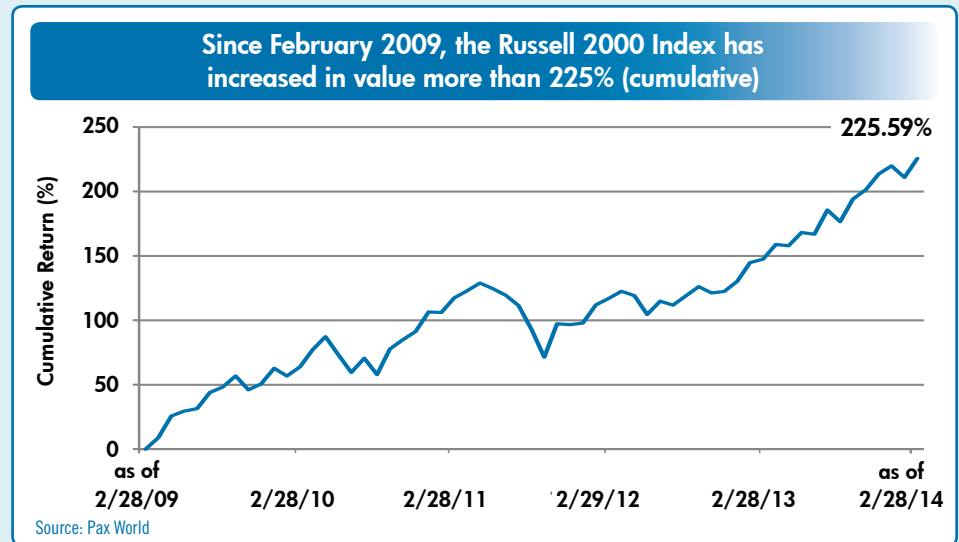
During 2013, the Russell 2000 Index (the Index)¹, a broad benchmark measuring small cap stock performance, returned 38.82%. January 2014 saw a reversal in performance of many equity market sectors, including small cap stocks, with the Index returning -2.77% for the month.

The Pax World Small Cap Fund outperformed the index during 2013 with Individual Investor Class shares earning returns² as of December 31, 2013 of 43.24% for one-year, 16.20% for three years, 22.85% for five years and 11.79% since inception on March 27, 2008, compared to returns for the Index of 38.38%, 15.67%, 20.08% and 10.98%, for the same periods, respectively.

As 2014 opened, the Fund continued its strong performance with Individual Investor Class shares earning returns as of February 28, 2014 of 2.43% year-to-date, 37.86% for one-year, 15.09% for three years, 26.06% for five years and 11.90% since inception. For the same time periods through February 28, 2014, the Index returns were 1.81%, 31.56%, 14.41%, 26.63% and 11.00%, respectively.

Of course, past performance is no guarantee of future results but, the fund's 2014 performance to date highlights that risk management is just as important as astute stock selection as market forces shift over the course of time.

Portfolio Manager Nathan Moser, CFA®, explained, "Since the fund's launch more than five years ago, my goal has been to provide superior risk-adjusted performance. With equity markets at all-time highs, we are focused on risk management."



Nathan said he maintains several portfolio management strategies to manage risks across the changing fortunes of a market cycle. A carefully executed sell discipline is among the most important of these strategies.

"For many investors, the fear of missing additional upside overwhelms the fear of losing money," Nathan said. "We have not altered our investment philosophy of investing in high quality stocks and watching valuation closely. As our investments approach the upper limit of the valuations we have established for them, we will sell and reinvest the proceeds in what we believe to be the best idea in a risk averse manner."

Performance data quoted represents past performance. Past performance is no guarantee of future results and investment returns and principal value of the Fund will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be

higher or lower than the performance quoted. Call 800.767.1729 or (if applicable) visit www.paxworld.com for current month end performance.

RISK: 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. Funds that emphasize investments in smaller companies generally will experience greater price volatility.

Total annual Small Cap Fund operating expenses, gross of any fee waivers or reimbursements are 2.20% for the Individual Investor Class. The Small Cap Fund's investment adviser has contractually agreed to reimburse expenses (excluding Acquired Fund Fees and Expenses) allocable to Individual Class shares of the Small Cap Fund to the extent such expenses exceed 1.24% of the average daily net assets of Individual Investor Class shares. This reimbursement arrangement will remain in effect through at least December 31, 2015.

¹ The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. Investors cannot invest directly in an index.

² Figures include reinvested dividends, capital gains distributions, and changes in principal value.

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What's new on paxworld.com

Have you visited Pax World's website recently? New content ranging from commentary to advocacy to product news may be of interest. A few examples include the following:



Pax World Investments President and Chief Executive Officer Joe Keefe was featured in *The Wall Street Journal's* "Voices" column. In an article titled, "Joe Keefe, on the appeal of ESG investments," he offers financial advisors insight into sustainable investing and the growing interest in it among investors, particularly two important and growing demographics: young people and women. To read the full article visit our web site: paxworld.com/WSJ



Investing in water is one of four pillars of the Pax World Global Environmental Markets Fund, a diversified portfolio investing in the breadth of environmental markets: energy, water, waste and sustainable food & agriculture. The idea that water may be more valuable than oil is perhaps surprising but certainly compelling for investors. Learn more by visiting paxworld.com/waterandoil

Investing for impact is focus of advocacy, engagement efforts

Pax World's shareholder engagement on behalf of investors focuses on persuading corporations to improve their sustainability performance on issues including climate change, gender diversity and labor relations. With two wins on gender diversity already tallied and additional initiatives underway, Pax World is off to a strong start in 2014.

"One of the most rewarding parts of sustainable investing is advocacy," said Pax World Senior Vice President for Sustainable Investing Julie Fox Gorte, Ph.D. "While any stakeholder has standing to talk to any company, the efficacy of that communication is amplified by investment. Few investors in the mainstream, frankly, take advantage of that tool. Sustainable investors do."

Pax World filed shareholder resolutions on board diversity with Oasis Petroleum and Territorial Bancorp⁴ asking the companies to ensure that women and minority candidates are considered as Board of Director nominees and to publicly demonstrate and report on their efforts. Both companies responded positively to Pax World's urgings before a shareholder vote, indicating their willingness to improve board diversity. Pax World withdrew its petitions.



Gender diversity on corporate boards

Gender diversity on boards of directors is a key concern of Pax World's. Studies have documented the efficacy of diverse boards. For example, a 2013 Thomson Reuters report on the levels of board gender diversity for 4,100 public companies globally concluded that, on average, companies with women on their boards had lower volatility than companies whose boards did not include

women and, in many cases, outperformed on the basis of stock price.⁵

Despite the data, even though women comprise more than 50% of the workforce in the U.S., they hold only about 16% of director seats on Fortune 500 companies.⁶



Fracking and climate change

On another key issue, Pax World is collaborating with asset managers that are signatories to the United Nations Principles for Responsible Investment (UNPRI) engaging oil and gas production companies on the environmental risks and opportunities from hydraulic fracturing (fracking) operations associated with shale gas and tight oil.

The purpose of the engagement is to acquaint gas companies with best practices for fracking established by the International Energy Agency. The principles include measuring and disclosing information about and engaging in public discussions about fracking, taking care when locating drills, isolating wells and preventing leaks, treating water responsibly, eliminating venting, minimizing flaring and other emissions, and ensuring a consistently high level of environmental performance and encouraging them to adopt and implement those best practices.

Pax World is leading this engagement with one company and supporting the outreach to 54 other oil and gas producers around the world.

Employee relations

A third key 2014 initiative is Pax World's work in collaboration with UNPRI signatories on engagement of 40 retail and food companies

on employee relations policies and practices in their stores around the world. At the foundation of the engagement is the correlation between strong human capital practices and companies' financial and operational performance.

The coalition identified more than 160 human capital management issues and practices and 15 indicators that have the greatest impact on company performance. These factors range from training expenditures and access to benefits to employee satisfaction and ratio of executive officer pay to median employee pay.

Ongoing initiatives

Pax World is party to ongoing engagements with other investors on sustainability performance with Best Buy⁷ and Walt Disney Company.⁸

In addition, the firm continues two key initiatives launched in 2013 as detailed in Dr. Gorte's report to shareholders in the 2013 Pax World Funds Annual Report. The first is work with the Investor Network on Climate Risk to bring attention to the issue of carbon asset risk—the so-called "carbon bubble." The second is engagement with clothing manufacturers and retailers in the MSCI World Index⁹ following the 2013 Rana Plaza factory collapse in Bangladesh that killed more than 1,100 workers—most of them women—recommending that these companies adopt and implement the UN Women's Empowerment Principles. 

⁴ As of 1/31/14, Oasis Petroleum, Inc., represented 0.2% and 2.7% of total assets of Pax World Balanced Fund and Pax World Small Cap Fund, respectively. Territorial Bancorp, Inc., represented 2.2% of total assets of Pax World Small Cap Fund. Holdings are subject to change.

⁵ Andre Chanavat and Katharine Ramsden, "Mining the Metrics of Board Diversity," Thomson/Reuters, June 2013.

⁶ The U.S. Bureau of Labor Statistics as of January 31, 2014, and Catalyst, "U.S. Women in Business," July 2013.

⁷ As of 1/31/14, Best Buy Co., Inc. represented 0.1% of total assets of Pax World Balanced Fund. Holdings are subject to change.

⁸ As 1/31/14, no Pax World Funds owned investments in Walt Disney Co.

⁹ MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Performance for the MSCI World Index is shown "net," which includes dividend reinvestments after deduction of foreign withholding tax. One cannot invest directly in an index.

Pax MSCI International ESG Index Fund (PXINX)

A NEW INTERNATIONAL INDEX FUND DRIVEN BY A SUSTAINABLE INVESTING APPROACH



The Pax MSCI International ESG Index Fund is the only fund that seeks to track the performance, before fees and expenses, of the MSCI EAFE ESG Index¹⁰. It may be attractive to investors who recognize the potential value of investing in companies in developed markets around the world, excluding the U.S. and Canada, that operate with high environmental, social and governance (ESG) standards.

For more information, visit:
paxworld.com/international



For Tomorrow®

On 3/31/14 Pax World International Fund and Pax MSCI EAFE ESG Index ETF merged into the Pax MSCI International ESG Index Fund, a passively managed index fund which seeks investment returns that closely correspond to the price and yield performance, before fees and expenses, of the MSCI EAFE ESG Index.

RISK: 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. 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. Funds that emphasize investments in smaller companies generally will experience greater price volatility.

¹⁰The MSCI EAFE ESG Index is designed to measure the performance of equity securities of issuers organized or operating in Europe, Australasia and the Far East that have high Environmental, Social and Governance (ESG) ratings relative to their sector and industry group peers, as rated by MSCI ESG Research annually. The MSCI EAFE ESG Index includes or utilizes data, ratings, analysis, reports, analytics or other information or materials from MSCI's ESG Research Group within Institutional Shareholder Services Inc., an indirect wholly-owned subsidiary of MSCI. One cannot invest directly in an index.

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JOE KEEFE, PAX WORLD CEO AND PRESIDENT LETTER TO SHAREHOLDERS continued from front page

we wrote to the 42 fossil fuel companies held in our funds, asking them to report on any steps they are taking to address the climate risk associated with their burning all of their known reserves. At year end, we joined the Investor Network on Climate Risk (INCR) in writing to 45 of the world's largest oil, gas, coal, and electric utility companies urging them again to report on what steps they are taking to address climate risk.

We also continue to press companies we own to embrace gender diversity on their boards. In 2013, as a result of a Pax World shareholder proposal and engagement, Stericycle, Inc. (SRCL)¹¹ amended its corporate governance charter to include gender and ethnicity as factors in board searches.

During the 2012-2013 proxy voting season, we voted against or withheld support from director slates at more than 180 companies

due to insufficient gender diversity, and we then wrote to each of them. Since the 2010-2011 proxy season, we have voted against or withheld support for director nominees at nearly 750 companies due to insufficient gender diversity, and again, registered our concern directly with these companies.

This is a very simple step that any mutual fund or other money manager could take to promote gender diversity on corporate boards. And yet the overwhelming majority of them don't. Instead, if they vote their proxies at all, they usually just rubber stamp most if not all management-supported proxy proposals, including a company's hand-picked slate of all-male directors. What a shame—and what a lost opportunity. At Pax World, we take our responsibilities as a shareholder seriously, and on gender diversity and other vital issues, we vote our proxies accordingly.

As 2014 unfolds, our goals remain the same: to deliver competitive investment performance across our funds by investing in companies that meet credible ESG standards; to serve and represent our shareholders as best we possibly can; and to leverage our influence as investors to achieve positive social and environmental outcomes—for our communities and for the larger global community.

We will do our best to live up to these commitments in the year ahead.

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.

RISK: Emerging markets 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.

¹¹ As of 1/31/14, Stericycle, Inc., represented 0.9% and 2.7% of total assets of the Pax World Balanced Fund and the Pax World Global Environmental Markets Fund, respectively. Holdings are subject to change.



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.

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