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MAKING A DIFFERENCE:
PAX WORLD'S 2011
SUSTAINABILITY UPDATE

SHAREHOLDER CORNER



2012 Market Update and Outlook

by Chris Brown, CIO and Portfolio Manager

The many macro conditions that impacted markets in 2011 continued to influence investors into the New Year, particularly the European sovereign debt crisis. International markets are up despite the fallout from the debt crisis and related austerity pressures. Greece appears to have an agreement with the euro-zone finance ministers regarding further funding. However, austerity measures being implemented in Greece could backfire, creating an even deeper recession for Greece. I do believe that Europe will remain at the forefront of events that will continue to shape the global economic environment in 2012. But as we close the first quarter of 2012, there are some encouraging signs, particularly on the domestic front.

The U.S. economy appears to be picking up

some steam. Recent housing and unemployment reports indicate signs of a recovery, and the majority of leading economic indicators demonstrated positive momentum for the economy over the past couple of months. Consumer sentiment also appears to be on the rise. Unemployment and housing are the critical components for a U.S. recovery. As anticipated, unemployment has slowly trended downward and job creation is continuing at a tepid pace. However, the “boomer” generation’s exit from the workforce may begin to become a significant catalyst for an improving employment rate. An improving employment environment has allowed consumer sentiment to rise, and non-distressed home prices should, in my opinion, stabilize this year.

Against this back drop, I continue to expect

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Dear *Connection* Readers,

Thank you for responding to our 2011 *Connection* Shareholder Survey which was included in the year-end statement mailing. Your feedback, particularly the hand written remarks, were insightful and will be invaluable as we work to improve the newsletter. We are currently in the process of tabulating the thousands of responses and comments, which included suggestions for featured content and product updates, and even ideas for changing font color and size to improve readability.

We received many notes of encouragement for our work for which we are most appreciative. I look forward to sharing with you more detailed results of the Survey in an upcoming issue of *Connection*.

As always, please feel free to send your comments and/or suggestions on *Connection* to me any time at info@paxworld.com.

Joe Keefe
President and Chief Executive Officer

New Manager Appointed for Global Women's Equality Fund

Kalus-Bystricky believes the most promising, innovative companies empower and advance women

The Pax World Global Women's Equality Fund, the only mutual fund in America that is focused on investing in companies around the world that are global leaders in promoting gender equality and women's empowerment, recently appointed Ivka Kalus-Bystricky as lead portfolio manager.

"We are very confident in this new portfolio management team, led by Ivka Kalus-Bystricky," said Pax World President & CEO Joe Keefe. "We believe their experience and expertise will help the Global Women's Equality Fund (PXWEX) attract and reward investors who believe, as we do, that investing in companies that empower and advance women is not only the right thing to do but also a wise business and investment strategy."

"We are very confident in this new portfolio management team, led by Ivka Kalus-Bystricky."

JOE KEEFE, PAX WORLD PRESIDENT & CEO

"I am a strong believer in globally diversified investments," said Ms. Kalus-Bystricky. "I also believe that some of the world's most promising, innovative companies are those that empower and advance women so that they can be full contributors. I truly believe the Global Women's Equality Fund will be able to demonstrate over time that these companies make better long-term investments."

Ms. Kalus-Bystricky will also continue in her role as portfolio manager of the Pax World International Fund (PXINX), which she has managed since

its inception on March 27, 2008, in addition to her new duties as lead manager of the Global Women's Equality Fund.

Tony Trzcinka, CFA, is also part of the management team for the Global Women's Equality Fund. He will also continue in his role as portfolio manager of the Pax World Growth Fund (PXWGX).

In addition to managing the Global Women's Equality Fund, Pax World is fully committed to advancing gender equality across much of the firm's work, from advocating for greater gender diversity on corporate boards to partnering with organizations working to advance women and girls around the globe. To learn more about gender equality as an investment concept and Pax World's women's empowerment platform visit: <http://www.paxworld.com/gwef>. ■

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.

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Ivka Kalus-Bystricky, Portfolio Manager

Ms. Kalus-Bystricky has over 22 years of investment experience. She has been responsible for management of the International Fund since its inception in 2008. She took over management of the Global Women's Equality Fund on January 1, 2012.

Before joining Pax World, she was a senior portfolio manager at State Street Global Advisors and Barings, where she managed international portfolios. Prior to that, she worked as an equity analyst at Putnam and Independence Investment, where she covered various international market sectors. Earlier in her career, Ms. Kalus-Bystricky returned to her native Czechoslovakia to work on the privatization of various state industries following the collapse of the iron curtain. She also spent several years as a management consultant to companies in Latin America, Europe, Canada and the United States. Ms. Kalus-Bystricky holds a Bachelor of Arts in biology from Harvard University, a Master's Degree from the Fletcher School of Law and Diplomacy, and a Master of Business Administration from INSEAD in France. She speaks five languages.

Pax World Growth Fund Takes a Thematic, Fundamental Approach to Growth Investing

Heading into 2012, investors were faced with the continuation of many significant macro issues—particularly the global financial crisis. But the first quarter of 2012 has offered some bright spots, including slightly improving employment and housing outlooks and continued low inflation.

“We are starting to see some economic improvement from all areas of the economy,” explains Tony Trzcinka, CFA, Portfolio Manager of the Pax World Growth Fund. “And while there are still some significant risks, I believe this is an environment within which growth stocks, which typically benefit when a rising economy helps companies grow profits and expand, should perform well.”

Why Growth Funds May Make Sense Now

Growth funds invest primarily in companies whose revenues and earnings are expected to increase at a faster rate than other companies within the same industry. Growth funds are generally more weighted to cyclical sectors such as technology, consumer discretionary and industrials, which can experience strong growth in the early stages of an economic recovery.

Trzcinka’s top-down, thematic, fundamental approach seeks attractively valued companies that have demonstrated growth in earnings and sales, and high returns on equity and assets. He has a particular focus on large-cap companies with strong new product profiles or management teams, and finds companies with material growth drivers that he believes will positively impact earnings, such as turnaround situations, brand dominance or cyclical businesses, particularly attractive. Trzcinka typically

visits up to 150 companies a year, believing that the ability to talk to management face-to-face gives him unique advantages.

Trzcinka’s focus on long-term growth, rather than chasing the latest trends, allows his identified themes to play out. This approach has historically resulted in lower turnover than peers, and has earned the Fund an overall 4-star Morningstar Rating™ as of February 29, 2012 (see chart below).

2012 Growth Fund Themes

A few of the themes Trzcinka has focused in on this year include:

Internet protocol (IP) traffic growth: “IP traffic growth is a secular growth story which I really like. It is expected to experience significant growth over the next five years due to increased use of tablets and mobile videos. Wireless data traffic, which includes YouTube

videos and streamed movies, rose 133% in 2011¹, and is expected to continue to experience tremendous growth.”

Economic recovery: “Financial companies in general and regional banks in particular are poised to take advantage of rising loan demand and improving credit. Also, I believe that regional banks are a little less risky than the large investment banks which are more exposed to regulation risk and global problems.”

Housing: “We started increasing our exposure to the sector last year as there were signs that housing was bottoming and valuations were attractive. We believed that once the data improved stocks exposed to this sector would take off. Year-to-date returns validate our thinking as homebuilders and related areas are up more than the overall market.”

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Growth Fund (PXWGX) as of February 29, 2012

Overall Morningstar Rating™
(Among 1463 Large Growth Blend Funds)



Morningstar Ratings as of 2/29/12 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 1,463 funds, 3-stars out of 1,268 funds and 4-stars out of 819 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.)



Making A Difference: Pax World's 2011 Sustainability Update

by Julie Gorte, Ph.D., Senior Vice President for Sustainable Investing

An important element of Pax World's Sustainable Investing approach is our belief that we have both an opportunity and a responsibility to use the financial leverage of the money we manage to make good companies better. Our Environmental, Social and Governance (ESG) analysis includes reviewing a potential investment for its impact on the environment, its workers and supply chain, communities and customers.

From January through November 2011, Pax World engaged directly with 45 companies on a variety of issues. Below are some highlights of our 2011 advocacy initiatives:

Board Diversity

In 2011 we strengthened our proxy voting guidelines so that we now withhold votes from or vote against all slates of directors that do not include at least *two* women in the majority of cases (we make an exception in countries where the national average for board gender diversity is less than 5%). This change resulted in our opposing director slates at 264 companies.

Environment

Pax World participated in several investor environmental initiatives in 2011, including structured engagements through the Principles for Responsible Investment for the CDP Water Disclosure Initiative and the CDP Leadership Initiative (CDPLI). Through the Ceres coalition, we participated in multi-stakeholder working groups on sustainability for American Electric Power, Disney, Timberland, North

Face, Sodexo, Green Mountain Coffee and Best Buy¹. Pax World was also a signatory to a letter organized by Ceres to all companies in the Russell 1000 Index² urging those companies to integrate ESG issues into business strategies and disclosures.

Pax was also a participant in several other environmental initiatives

Pax World was a signatory to a letter prepared by NEI Investments of Canada to the co-chairs of the Alberta Environmental Monitoring Panel commending the panel for designing a good environmental monitoring system for oil company operations in the Alberta Oil Sands, and urging the Panel to follow up with a robust monitoring system for such operations.

Pax World signed on to a letter organized by As You Sow urging General Mills, Kraft, Unilever and Procter & Gamble¹ to take extended producer responsibility for the waste stream created by product packaging; and a letter to companies who have representatives serving on the board of the National Association of Manufacturers, whose position on climate change is inconsistent with the companies' own positions.

Pax World signed on to several investor initiatives urging public policy action on various environmental issues, including:

- A letter coordinated by Trillium Asset Management and Calvert Asset Management, urging the Environmental Protection Agency (EPA) to initiate a review of a



proposed mining project in Alaska that could affect the quality of fisheries and drinking water.

- The Global Investor Statement on Climate Change urging national policymakers to establish and enforce policies limiting emissions of greenhouse gases.
- Two letters to state legislators, coordinated by Investor Network on Climate Risk (INCR), one supporting a regional Clean Fuel Standard for New England and the Mid-Atlantic States, and a similar letter for California.
- A public statement, coordinated by the Investor Environmental Health Network and Boston Common Asset Management, supporting the establishment of environmental key performance indicators for oil and gas companies using hydraulic fracturing techniques to produce natural gas.

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- A letter coordinated by INCR, sent to members of Congress urging them to support the EPA's efforts to propose and implement new, stronger implementation rules for electric utilities under the Clean Air Act. The letter focused on regulation of mercury and air toxics emissions, and urged Congress to support the EPA's efforts to try to reduce these emissions from utilities.

Anti-Corruption Principles

Pax World became a signatory to a letter to the California Senate supporting SB 861, prohibiting California from contracting with companies that fail to comply with Federal reporting requirements on Congolese conflict minerals. As the term "conflict minerals" implies, these minerals are generally believed to be mined in areas with significant human

rights abuses. In addition, the profits from these minerals are believed to be used to fund armed conflicts in places such as the Democratic Republic of the Congo. Ultimately, we seek a non-corrupt market for these natural resources that benefit many instead of enriching a few. These minerals, such as coltan and gold, are commonly found in electronic devices.

One outcome of our advocacy work was that on October 9, 2011, California SB 861 was signed into law.

Human Rights

Pax World was a signatory to a letter expressing support for the Trafficking Victims Protection Reauthorization Act (TVPRA), S.1301, sponsored by ATEST (Alliance to End Slavery and Trafficking). The coalition of investors and interest groups that circulated the letters to the

Office of Management and Budget and Congress decided, after the bill was passed in the House of Representatives, to withdraw its letter to key House committees after the House removed key provisions of the bill during its deliberations. We continue to maintain support for a more robust bill in the Senate. ■

¹As of 12/31/11, American Electric Power, Disney, Timberland, North Face, Sodexo and Unilever were not held by any Pax World Mutual Funds. As of 12/31/11, Green Mountain Coffee was 0.1%; Best Buy was 0.1% of Pax World Balanced Fund; General Mills was 2.1% of Pax World Growth Fund, and 1.4% of Pax World Global Women's Equality Fund; Kraft was 0.1% of Pax World Balanced Fund; Procter & Gamble was 0.9% of Pax World Balanced Fund, 1.6% of Pax World Growth Fund, and 1.6% of Pax World Global Women's Equality Fund. Holdings are subject to change.

²The Russell 1000 Index is an unmanaged index considered representative of large-cap stocks. Investors cannot invest directly in an index.

moderate gross domestic product (GDP) growth for the U.S. and possibly a mild recession for Europe in 2012. In my view, from a sector perspective, energy, industrials and technology look promising this year. The price of oil has recently spiked as a result of Iran cutting off their oil supply to western nations and an unusually cold winter in Europe and Asia. Energy companies have seen their share prices soar recently. I am concerned that higher oil and gasoline prices may hurt the consumer and the economy domestically. However, the price of natural gas remains under pressure as supply has overwhelmed demand. Longer-term, I anticipate more companies and the general population to switch to natural gas due to its inexpensive price relative to oil.

Industrial companies in general continue to demonstrate resilience in demand for their products. Overall, commodity prices appear to be softening, which I believe will bode well for industrial companies. Low commodity prices should reduce input costs, allowing some relief and expansion of their margins. Dividend yields also look attractive for many of the industrial companies we hold.

Technology has faced some headwinds due to a decrease in government and financial services company spending. However, internet mobility, cloud computing and strong demand from emerging markets may help offset the reduction in spending. We are focusing on technology companies that will provide solutions and more efficiency

for their customers regardless of the economic environment.

In addition to focusing on companies with sustainable business models, we have been increasing our emphasis on income for the funds we manage. In light of the current economic environment, we believe income will be a primary driver of total returns. Dividend yields are generally at very attractive levels and corporate balance sheets continue to remain strong. We anticipate companies with large amounts of cash on hand and strong cash flows to reward shareholders with higher dividends in 2012. ■

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.

Shareholder Corner

Pax World Moves Shareholder Services and Processing to Boston Financial Data Services

To better serve our shareholders, we recently transferred mutual funds transaction processing, recordkeeping and shareholder services to a new provider, Boston Financial Data Services (BFDS).

We believe that shareholders will benefit from the expertise, experience and technology that our new service provider offers. Shareholder account number and account options remain the same. All Pax World toll-free telephone numbers also remain the same.

Here is a list of what has changed with the conversion:

New Mailing Addresses And Wire Instructions

Mail is being forwarded from the Funds' previous service center addresses for a reasonable time, but please use the new addresses immediately.

Overnight Mail:
Pax World Mutual Funds
C/O BFDS
30 Dan Road, Suite #55370
Canton, MA 02021-2809

Standard Mail:
Pax World Mutual Funds
P.O. Box 55370
Boston, MA 02205-5370

Purchasing by Wire:
State Street Bank & Trust Co.
ABA # 011000028
Account # 99058570

New Online Account Access

Our website remains unchanged at www.paxworld.com. However, existing online account access users will need to re-register to establish a user ID and password in the new system. The first time you access the new system, you will need your account number and Social Security Number to re-register.

If you do not currently utilize online account access, we encourage you to register for it by visiting www.paxworld.com and clicking the "Log In" link.

Money Market Account Check Writing

Pax World Money Market Account (PWMMA) owners who utilize the check-writing option must complete a new signature card in order to receive a new checkbook. A separate letter with a new signature card was sent to shareholders. If you have a PWMMA checkbook and have not received the new signature card, please contact us. Checks written from your former checkbook will no longer be honored.

If you have any questions about your account or the change in service provider, please contact our Shareholder Service Center at 1-800-372-7827. Representatives are available to assist you between 8:00AM and 6:00PM ET, Monday through Friday.

PAX WORLD GROWTH FUND TAKES A THEMATIC, FUNDAMENTAL APPROACH TO GROWTH INVESTING CONTINUED FROM PAGE 3

In uncertain markets like today's, strong risk control measures are an important part of a solid investment strategy. Trzcinka and his team employ specific, detailed risk controls. He believes that Pax World's Sustainable Investing process, which incorporates Environmental, Social and Governance (ESG) criteria into financial analysis, results in an increased level of scrutiny that may help him to identify better

managed companies. It allows him and his team to potentially mitigate risk by highlighting problems long before they become issues.

"During uncertain markets like today's, it's particularly important for growth investors to resist the temptation to react to market movements and to stay the course and remain focused on their long-term investment goals." ■

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. 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.

¹ Source: Bloomberg Business Week, February 14, 2012.

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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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