

## INSIDE

INVESTING FOR IMPACT

OUR ACTIVELY MANAGED,  
HIGH CONVICTION SMALL  
CAP FUND FOCUSES ON  
HIGH QUALITY COMPANIES

PAX WORLD SMALL CAP  
FUND EARNS MORNINGSTAR  
5-STAR RATING



## Dear Fellow Shareholders,

Looking back at 2014, it is striking how much steady improvement we saw in the U.S. economy while economic turmoil continued to plague

much of the globe. Robust job creation, solid gross domestic product (GDP) growth, healthy corporate earnings, continued low inflation and other positive economic news lifted U.S. markets. At the same time, a significant disparity between U.S. markets and global markets—including the eurozone, China and Japan—was evident throughout much of the year.

The S&P 500<sup>1</sup>, for example, was up 13.69% for the year while the MSCI World Index<sup>2</sup> was up only 4.94%, and MSCI ACWI Index<sup>3</sup>, which includes emerging markets, was up only 4.16%.

This growing divergence between the U.S. economy and the rest of the world may be a major theme in 2015 as well—as the New Year began, uncertainty about Federal Reserve (Fed) policy, a strengthening dollar, turmoil in the eurozone, slowed growth in China and lower oil prices all weighed on global markets.

2014 was also a year where global economic growth was accompanied by continued, growing inequality between the very wealthy and the rest of mankind. It has been reported that the 85 richest people in the world now own more wealth than half of the earth's population while the richest one percent now own more wealth than the combined wealth of 99% of the earth's population. Most of the remaining 99% of global wealth is held by the wealthiest 20%, while only 5.5% of global wealth is shared by 80% of the earth's inhabitants.<sup>4</sup>

While there may be many causes of the horrific violence and strife we see across much of the globe, and while I am loathe to reduce all problems to economics, I cannot help but think that the widening gulf between the haves and the have-nots is playing out in increasingly destructive ways.

Nor can it be denied that inequalities of outcome and opportunity continue to break down along gender lines. In the U.S., women only earn 78 cents on every dollar a man earns<sup>5</sup> and hold only 17% of Fortune 500 board seats<sup>6</sup>. In other parts of the globe, the economic challenges facing women and girls are much starker, characterized

by wide inequalities in access to education, employment, land, credit and capital. These economic inequities are too often characterized by even more insidious forms of violence and oppression—domestic and sexual violence, honor killings, genital mutilation, trafficking, and even violence against young girls for the simple act of trying to attend school. It is fitting that 2014 saw a young Pakistani girl by the name of Malala win

the Nobel Peace Prize. Gender inequality is the great human rights issue of our time.

2014 was also the warmest year on record, at least according to NASA and the NOAA (National Oceanographic and Atmospheric Administration), and Bloomberg reported that 13 of the hottest years ever recorded have occurred over the past 14 years. There has been some nit picking from the usual suspects over margins of error, slower rates of warming, oceanic vs. land temperatures, and so forth, but the vast majority of the scientific community, and indeed the global community,

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*We strongly believe that advancing women, tackling climate change and confronting the world's most vexing challenges can lead to positive returns for investors.*

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# Investing for Impact

By Dr. Julie Fox Gorte, Ph.D., Senior Vice President for Sustainable Investing

Pax World specializes in sustainable investing, which means that sustainability is at the core

of everything we do. There are different ways in which our investments help move the world to a more sustainable path: equity and fixed income investments in companies whose businesses embody the kinds of impact we want, engagement and proxy voting, and sustainability themed funds.

**Community Investing.** One of the most easily understandable forms of impact investment is community investing. Sustainable investors, including the Pax World Mutual Funds, have allocated some assets to community investing, which means investment in fixed income instruments supporting sustainable development in communities of place or interest. As this is written, the Pax World Mutual Funds currently invest in the Calvert Foundation's Community Investment Note, CEI Investment Notes, the Enterprise Community Loan Fund, Hope Credit Union, Urban Partnership Bank, and the Beneficial State Bank (One PacificCoast Bank)<sup>1</sup>. These notes support a variety of sustainability initiatives at the community level, including affordable and energy-efficient housing, environmental protection, women's empowerment, healthy communities, job creation in low-income communities, and environmental protection. Pax World believes these investments may have a positive direct impact on underserved localities, which is an important principle of our investment and business philosophy.

**Green Bonds.** Another rapidly-growing category of impact investing is green bonds. The green bond market ballooned in 2014, with over \$36 billion in new green bond issues, more than triple the value of green bond issuances in 2013. Green bonds are aimed specifically at environmental impact, with many focusing even more specifically on climate change mitigation, energy efficiency and clean energy. The Pax World Funds own three different green bonds: one from Bank of America, one from the International Finance Corporation (an arm of the World Bank), and one issued by the state of California<sup>1</sup>. We believe

## Green Bonds Currently Owned by Pax World

### International Finance Corporation Green Bonds

- Investments in energy efficient equipment, systems and services such as waste heat recovery, cogeneration, building insulation, and energy loss reduction in transmission and distribution of electricity
- Renewable energy such as wind, hydroelectric, solar and geothermal electricity generation
- Improvements in manufacturing processes to conserve energy, water, and raw materials
- Investment in manufacturing components used in energy efficiency, such as solar PV, turbines, and building insulation
- Sustainable forestry

### State of California Green Bonds

- Renewable energy, such as solar, wind, and geothermal energy
- Energy efficiency projects, such as lighting retrofits, district heating, cogeneration and building insulation in residential, commercial & public properties

### Bank of America Green Bonds

- Air pollution reduction
- Clean water & drinking water
- Energy efficiency and conservation in public buildings
- Protection of beaches, bays & coastal waterways
- Flood prevention
- Sustainable communities & climate change reduction

these investments can have a positive direct impact on society at large due to their scale, and ultimately their lasting impact.

The Pax World Funds also invest in municipal bonds that are aimed at improving the sustainability of infrastructure, including one that funds capital improvements to water and wastewater treatment systems in Alderwood, WA; one that funds urban renewal in Portland, OR; and one issued by the North American Development bank that finances projects to improve environmental and human health on the U.S.-Mexico border.

**Equity Investments.** Pax has two themed funds aimed at specific continents on the map of sustainability: the *Pax Ellevest Global Women's Index Fund* (PXWEX), which invests in the highest-rated companies that advance women's

leadership, and the *Pax World Global Environmental Markets Fund* (PGRNX), which invests in companies whose businesses provide solutions to environmental problems. Investing in companies that are leaders in solving sustainability problems helps to bring attention to the companies' efforts to solve global problems, like gender discrimination, environmental pollution and climate change. As more investors start viewing these as indicators of better managed, more forward-thinking companies, these companies tend to perform better on financial markets, in turn this can lead to an increase in the companies' competitiveness. That helps to work sustainability into the DNA of economic enterprise.

What kinds of companies are these? In the Global Women's Index Fund, that means companies like Xerox Corporation, where nine women serve as senior executives, including the CEO, Ursula M. Burns, and the CFO, Kathryn A. Mikells. Xerox is one of the few companies where there is actual gender parity on the board: half the company's directors are women. In the *Global Environmental Markets Fund*, the Kingspan Group Plc is a global leader in high performance insulation, building fabric and solar integrated building envelopes. The company is widely recognized for its commitment to innovation, design, quality and technical expertise, with sustainability at its core.


**Engagement.** One way to help advance sustainability at any company is through advocacy and engagement. Pax World has filed or co-filed four shareholder proposals for this proxy season, covering sustainability reporting and greenhouse gas emissions, board diversity policies, and transparency on political spending. Moreover, we vote hundreds of company proxies every year, and our proxy voting also helps to move the sustainability needle; for example, Pax votes against or withholds votes from all-male board slates, and from the vast majority of slates that include only one woman. Pax votes against the majority of company Say on Pay proposals, most of the time because we do not believe that company executive pay plans provide sufficient ties to performance.

Finally, Pax also engages in dialogues with companies. With Walden Asset Management,

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# Our actively managed, high conviction small cap fund focuses on high quality companies

The Pax World Small Cap Fund (PXSCX) generally seeks to hold approximately 40-60 positions at any one time. While small cap stocks can vary widely in terms of quality, Pax World seeks to invest only in small cap companies that are highly profitable, reasonably priced and have strong management teams. Over time, this concentrated approach to small cap investing has produced proven results.

The Pax World Small Cap Fund allows you to invest with your values while still providing a history of competitive performance. To learn more visit [paxworld.com/smallcap](http://paxworld.com/smallcap). 

**Pax World Small Cap Fund (PXSCX) Earns Morningstar 5-star Rating**



Overall Rating<sup>1</sup> - Out of 624 Small Cap Blend Funds based on risk-adjusted returns as of 12/31/2014

The Morningstar Ratings™ shown are as of 12/31/14 and are based on risk-adjusted 3-, 5-, and 10-year (if applicable) returns, and past performance is no guarantee of future results. The Pax World Small Cap Fund (PXSCX) Morningstar ratings were 5 stars out of 624 funds overall, 4 stars out of 624 funds for 3-years, 5 stars out of 567 funds for 5-years. 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.) The Overall Morningstar Ratings™ for a fund is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year Morningstar Ratings™ metrics.

## Pax World Small Cap Fund Lipper Ranking as of 12/31/2014

### Quartiles



Data shown represents rankings for the Individual Investor Class in the Lipper Small Cap Core category based on average annual returns. Lipper rankings are based on total returns (not including sales charges) for the periods indicated and compare total return performance with that of other funds in the category.


As of 12/31/2014 the returns for the Pax World Small Cap Individual Investor Class (PXSCX) were: 1 year: 7.06%, 5 year: 16.96% and since inception (3/27/2008): 11.08%.

*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](http://www.paxworld.com) for current month end performance.*

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.

**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.

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Pax co-leads a multi-investor dialogue aimed at getting smaller companies to disclose sustainability performance and set goals for improvement; we also participate in multi-investor company dialogues on greenhouse gas emissions and climate risk, water management and employee relations. 

<sup>1</sup> As of 12/31/2014 the Pax World Balanced Fund had \$2.6M in Alderwood Water and Wastewater District, \$4.9M in Bank of America Green Bonds, \$3.6M in California Green Bonds, \$3M in the Calvert Foundation, \$256K in CEI Investment Notes, Inc., \$3.3M in the City of Portland, OR Urban Renewal, \$499K in Enterprise Community Load Fund, \$100K in Hope Credit Union, \$9M in International Finance Corp. (World Bank), \$1.9M in North American Development Bank, \$417K in Self-Help Credit Union

and \$248K in Urban Partnership Bank. The Pax World High Yield Bond Fund had \$1.9M in Bank of America Green Bonds, \$600K in Beneficial State Bank (One PacificCoast Bank), \$100K in Self-Help Credit Union, \$200K in Urban Partnership Bank and \$7.3M in Tom's Shoes, LLC. Subject to change.

Pax World Global Environmental Markets Fund Top Ten holdings as of 12/31/14: Xylem, Inc. 3.1%; Linde AG 3.1%; American Water Works Co., Inc. 3.1%; Pentair PLC 3.0%; Pall Corp. 3.0%; Pennon Group PLC 3.0%; BorgWarner, Inc. 3.0%; Delphi Automotive PLC 3.0%; GEA Group AG 3.0%; and Stericycle, Inc. 2.9%. Holdings are subject to change.

Pax Ellevest Global Women's Index Fund Top Ten holdings as of 12/31/14: KeyCorp. 2.0%; Xerox Corp. 2.0%; Weyerhaeuser Co., REIT 2.0%; Lockheed Martin Corp. 2.0%; Procter & Gamble Co., The 2.0%; Coca-Cola Enterprises, Inc. 2.0%; Kellogg Co. 2.0%; Microsoft Corp. 1.9%; PepsiCo, Inc. 1.9%; and Estee Lauder Cos, Inc., Class A 1.9%. Holdings are subject to change.

**RISK:** Investment in mutual funds involves risk, including possible loss of principal invested. You could lose money on your investment in the Fund or the Fund could underperform because of the following risks: the market prices of stocks held by the Fund may fall; individual investments of the Fund may not perform as expected; the Fund's portfolio management practices may not achieve the desired result. The Pax Ellevest Global Women's Index Fund does not take defensive positions in declining markets. Accordingly, the Fund's performance would likely be adversely affected by a decline in the Index. Investments in emerging markets and non-U.S. Securities are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation, intervention and political developments. As certain Funds can have a high concentration in some issuers the Fund can be adversely impacted by changes affecting issuers. There is no guarantee that the objective will be met and diversification does not eliminate risk.

believes this is a settled issue: we simply must confront the developing catastrophe of climate change.

What does all this have to do with Pax World? Well, the plain fact of the matter is that confronting our greatest global challenges—from gender inequality to climate change—may also be the key to unleashing the greatest period of economic growth the world has ever known. These are issues, in other words, that investors should care about. A study by the University of Massachusetts Political Economy Research Institute (PERI) and the Center for American Progress found that the United States could reduce carbon pollution by 40% from 2005 levels and create a net increase of 2.7 million clean energy jobs, thus reducing the unemployment rate by 1.5%. Numerous other studies have pointed to the economic growth that would accompany serious efforts to reduce carbon emissions and promote a clean energy economy.

That's why we prod the companies in our portfolios to disclose and reduce their emissions. It's why we offer two fossil fuel-free funds. It's why we offered the first mutual fund in the U.S.—the *Pax World Global Environmental Markets Fund* (PGRNX)—with a broad, multi-sector focus on resource efficiency. According to Impact Asset Management, the sub-adviser for that Fund:


“A revolution in efficiency is now underway that is creating unprecedented opportunities for the private sector. The result is a diverse set of companies offering cleaner, more efficient products and services across the energy, water, waste, food, and agriculture sectors....”

At Pax World, we want to invest in those companies.

And can you imagine how much value is locked up inside of outdated, inequitable patriarchal structures around the globe—value that could be unleashed if women were afforded the same educational and economic opportunities as men? According to UN Women, eliminating wage disparities between men and women would boost GDP in the U.S. by 9%, the eurozone's GDP by 13% and Japan's by 16%. Per capita income across 15 major developing economies would rise by 14% by 2020 and 20% by 2030. Eliminating discrimination against female employees could boost productivity per worker by up to 40%<sup>7</sup>. And there is now a compelling body of research underscoring that where women are better represented on corporate boards and in corporate management, companies simply perform better and become more profitable.

That's why we launched the *Pax Ellevest Global Women's Index Fund* (PXWEX), which invests in the highest-rated companies in the world for advancing women on boards and in senior management. We believe these companies are not only moving the needle on the critically important issue of gender equality but that they are quite simply better investments.

At Pax World, we believe that the way you invest matters. You can invest in ways that seek to resolve the great moral and economic challenges of our time—that is to say, you can invest for *impact*—or you can ignore these imperatives in pursuit of short-term gain regardless of the social and environmental costs. We choose to invest for impact. We choose to make a difference. And we strongly

believe that advancing women, tackling climate change and confronting the world's most vexing challenges can lead to positive returns for investors. 

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.**

<sup>1</sup>The S&P 500 Index is an unmanaged index of large capitalization common stocks.

<sup>2</sup>The 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 (Net) 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.

<sup>3</sup>The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. Performance for the MSCI ACWI Index is shown “net”, which includes dividend reinvestments after deduction of foreign withholding tax.

One cannot invest directly in an index.

<sup>4</sup>Credit Suisse Data 2000-2014; Oxfam.

<sup>5</sup>U.S. Census Bureau, Current Population Reports, P60-249. Income, Poverty, and Health Insurance Coverage in the United States: 2013. Issued September 2014.

<sup>6</sup>Catalyst, “US Women in Business,” May 2014.

<sup>7</sup>The World Bank, The World Development Report 2012: Gender Equality and Development, P237.



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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](http://www.paxworld.com). Please read it carefully before investing.**

**An investment in the Pax World Funds involves risk, including loss of principal. Past performance does not guarantee future results.**

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The **Pax World Balanced Fund** seeks income and conservation of principal and, secondarily, long-term growth of capital. The **Pax World Growth Fund's** investment objective is to seek long-term growth of capital. The **Pax World Small Cap Fund's** investment objective is to seek long-term growth of capital. The **Pax World High Yield Bond Fund's** primary investment objective is to seek high current income. As a secondary investment objective the Fund seeks capital appreciation. The **Pax World Global Environmental Markets Fund's** investment objective is to seek long term growth of capital by investing in innovative

companies around the world whose businesses and technologies focus on environmental markets, including alternative energy and energy efficiency; water infrastructure technologies and pollution control; environmental support services and waste management technologies; and sustainable food, agriculture and forestry. The **Pax MSCI International ESG Index Fund** seeks investment returns that closely correspond to the price and yield performance, before fees and expenses, of the MSCI EAFE ESG Index. The **Pax Ellevest Global Women's Index Fund** seeks investment returns that closely correspond to or exceed the price and yield performance, before fees and expenses, of the Pax Global Women's Leadership Index (the “Women's Index”), while maintaining risk characteristics that Pax Ellevest Management LLC (“PEM”) believes are generally similar to those of the Women's Index.