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THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Taking a Risk-Averse Approach to Small-Cap Investing

NATHAN MOSER, CFA, is Portfolio Manager of Pax World Funds Series Trust for Pax World Investments. He serves as Portfolio Manager of the Pax Small Cap Fund and the Pax Mid Cap Fund. Mr. Moser is also a member of the portfolio management team for the Pax Balanced Fund. He joined Pax World in 2008 from Citizens Funds, where he worked for six years, first as an equity analyst and then as Portfolio Manager. Mr. Moser is a Chartered Financial Analyst and member of the Boston Security Analysts Society. He holds a Bachelor of Science from Babson College.

SECTOR — GENERAL INVESTING

TWST: Can you talk about your firm and role, and the general philosophy behind the investment vehicles that you help to oversee?

Mr. Moser: Pax World Investments is a Portsmouth, New Hampshire-based asset manager. We manage approximately $4 billion in assets and are known as a leader in sustainable investing, which we define as the full integration of environmental, social and governance — ESG — factors into our investment analysis and portfolio construction. I joined the firm in 2008 and manage the Pax Small Cap Fund (MUTF:PXSIX) and the Pax Mid Cap Fund (MUTF:PMIDX). I am also a member of the portfolio management team of the Pax Balanced Fund (MUTF:PAXIX).

The investment philosophy for the Small Cap Fund and Mid Cap Fund are similar. It is our belief that actively managing a portfolio of high-quality, attractively valued companies will produce superior risk-adjusted returns over the long term. We launched the Small Cap Fund in March of 2008 with $1 million in seed capital, and it has grown to above $800 million. It's a small-cap core fund and benchmarked to the Russell 2000 Index.

One differentiator of our strategy is the focus on downside risk. When we set out to launch the fund, one of my goals was to reduce one of the key barriers investors have with the small-cap asset class, that being risk. Throughout the process, we seek to mitigate risk as much as possible. Over time, we have been successful in doing this. The fund has performed well since inception and done so with approximately 25% less risk.[1]

TWST: I am looking at the present mix of holdings for the Small Cap Fund, and it is very weighted to financials. I say that because you have quite a few of your sectors under the 10% threshold and financials at 28.3%. Can you explain why that is?

Mr. Moser: It's a function of the fact that financials are a large part of our benchmark. They represent approximately 20% of the index. In addition, we remain bullish on financials. We have been overweight the sector for the last two or three years for a couple of reasons. We have found many of the companies within the sector are attractively valued. We also have the thesis that interest rates will rise, which would be a tailwind, especially for the community banks that we own.

TWST: Talk about to what extent your management of the fund is quantitative versus qualitative.

Mr. Moser: Let me walk through our investment process. We start with a quantitative screen on the front end to narrow our investable universe to approximately 100 companies. This is a multifactor screen that adjusts factors based on where we believe we are in the business cycle. I like to think that the screen focuses our research, making sure we are fishing in the right pond, so to speak. From that point, we conduct our fundamental research to not only

1 The Pax Small Cap Fund (PXSIX) has returned 10.06% annualized since inception (3/27/2008) for the period ending 3/31/2017 compared to 9.53% for the Russell 2000 Index. Since inception (3/27/2008) the Fund's standard deviation is 17.91 compared to 20.53 for the Russell 2000 Index. The returns for the Fund's benchmark (the Russell 2000 Index) as of 3/31/2017 were: 1 year: 26.22%, 3 year: 7.22%, 5 year: 12.35%, Since Inception (03/27/2008): 9.53%. The returns for the Pax Small Cap Institutional Class (PXSIX) as of 3/31/2017 were: 1 year: 14.83%, 3 year: 6.37%, 5 year: 12.76%, and Since Fund Inception (03/27/08): 10.06%. *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.*

understand the business and its prospects, but we pay a fair amount of attention to what happens if we are wrong.

In this business, I have learned over time that you are going to make plenty of mistakes, and I believe that it is my job as a risk-focused manager to make sure that we minimize losses in circumstances when we are wrong. The last part of the process has to do with the detailed valuation work that we conduct. Every company that we purchase gets a fair-value target and bear-case value. We want to figure out not only how much money we're going to make if we're right, but what is the downside case if we're wrong?

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TWST: What other rules do you have over the fund, including sector or size limits?

Mr. Moser: From a risk-control standpoint, we limit sector overweights and underweights to 10% relative to the benchmark. We feel that it is a wide enough band to allow for high conviction, but not so wide that, if we are wrong, it will negatively impact the fund. With respect to security selection, we typically limit our largest positions to approximately 4%.

TWST: What makes you decide to sell a holding out of the portfolio?

Mr. Moser: That is an important part of the process, and I always say to folks that the difference between a good portfolio manager and great portfolio manager is sell discipline. Our sell process is done in two different ways. In positive cases, when the stock nears what we think is full or fair value, we will trim or sell those companies. In negative cases, for every security that declines 20% from where we purchased it, we reanalyze our investment thesis. We ask ourselves the question, have we missed something, or is the stock down because the market is down? This is not a hard-and-fast sell rule, but the hope here is that we will catch positions where we may be wrong sooner.

Highlights

Nathan Moser discusses Pax World Investments and the Pax Small Cap Fund. Mr. Moser believes he can produce superior risk-adjusted returns over time through active management and investing in high-quality, attractively valued companies. His strategy also focuses on downside risk. Risk is one of the key barriers to the small-cap space for investors, so Mr. Moser seeks to mitigate risk as much as possible. Mr. Moser's overall process starts with a quantitative multifactor screen to narrow the investable universe. From there, he conducts fundamental research alongside analysis of a company's environmental, social and governance factors, which adds insight into the quality of a company and its management team and helps to identify risk.

Companies discussed: Antero Resources Corp. (NYSE:AR); Natus Medical (NASDAQ:BABY) and Capitol Federal Financial (NASDAQ:CFFN).

TWST: Can you talk about some of the individual holdings that you have today and why they have been selected?

Mr. Moser: In the energy sector, one of our highest-conviction names is **Antero Resources** (NYSE:AR). **Antero** is a Colorado-based exploration and production company with a focus on natural gas in the Marcellus Shale, which is primarily in Pennsylvania, Ohio and West Virginia. We believe this is a very high-quality company with a strong management team and very good acreage. In our view, the company can grow production in excess of 20% per annum over the next few years or so.

We also like the hedge position that management has built. They have effectively locked in an above-market price for the majority of their production for the next three years, which limits commodity price risk. The stock is cheap, especially on a net-asset-value basis, and over time, we think investors will afford **Antero** a higher multiple as it not only shows strong production growth but delevers the balance sheet.

TWST: Can you speak about a few other holdings that are in different sectors?

Mr. Moser: Within health care, a long-term holding of ours and one that we are very bullish on is **Natus Medical** (NASDAQ:BABY). **Natus** is a California-based medical device company that was previously known for newborn hearing screening but has branched out into other aspects of newborn care and neurology. They just completed the acquisition of **Otometrics**, which we believe is nicely accretive to earnings and pushes revenues above $500 million on an annual basis.

We like **Natus** because of its strong market position, steady revenue growth and margin opportunity. We believe their operating margin has meaningful upside, which will drive accelerating earnings growth, especially in 2018. Lastly, and I believe this is true for many of our holdings, **Natus** is the type of asset that would make it an attractive acquisition candidate. While we never invest in companies solely because of that, we believe that is a game plan for **Natus** over the medium term.

TWST: What about another holding in another sector?

Mr. Moser: One of the banks that we have owned for many years is **Capitol Federal Financial** (NASDAQ:CFFN), or **Cap Fed**. **Cap Fed** is a very well-run Kansas-based bank with a conservative management team and strong credit quality. The bank pays out all of its earnings in a dividend and has had a history of strong share repurchases. While the bank has appreciated with the group as interest rates have moved higher, we still believe there is upside left in the shares. We have seen and continue to expect continued consolidation among community banks. I don't see why **Cap Fed**, in time, won't be part of this long-term trend.

TWST: When you look across the sectors, what do you feel that you're being cautious about, and why?

Mr. Moser: Our largest underweights are in technology and materials. Technology is an area where we are doing a fair amount of work in anticipation of adding some exposure. We remain cautious about materials. Many of these stocks have had a good run, and we view a lot of these companies as higher risk, due to their lower quality, in our view. Lastly, we tend to view materials alongside energy, as they are exposed to some of the same drivers. Historically, we have been overweight energy and underweight materials, finding many of our energy companies higher quality in nature.

1-Year Daily Chart of Antero Resources Corp.

Chart provided by www.BigCharts.com

1-Year Daily Chart of Natus Medical

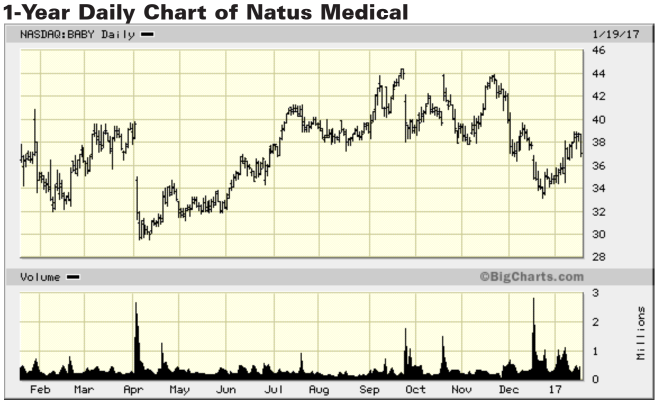

Chart provided by www.BigCharts.com

TWST: What you are mentioning, are you talking about a cyclical aspect whereby the materials are becoming more commodified, or what aspects about them make them lower quality in your opinion?

Mr. Moser: These are globally exposed companies that are also impacted by currencies. There are some areas of the materials sector, and I'm thinking specifically of metals and mining, where a stronger U.S. dollar could serve to depress commodity prices. In addition, we currently are favoring companies levered to domestic growth over foreign. So when I look at the various exposures we have within the funds, we are minimizing our exposure to materials.

TWST: How much of this fund is impacted by your sustainability thesis? To what extent is it considered a pure sustainability fund?

Mr. Moser: All of our funds here at Pax are sustainable or ESG-focused, and it is an important part of our process. Small caps are an inefficient part of the marketplace. If you are conducting thorough fundamental research, there is the potential for alpha generation on a consistent basis over time. The sustainability analysis that our analysts conduct here at Pax not only gives us added insights into the overall quality of a company and its management team but potentially helps identify risk that many of our competitors are not paying close attention to.

TWST: You mentioned the pillars of sustainability in terms of how you define sustainability. Does each holding have to meet all criteria, or just one or two? Talk about which of the sustainability criteria are most important to you as a portfolio manager when selecting holdings.

Mr. Moser: The way I think about what we are trying to do from an ESG perspective, just broadly speaking, is to avoid the laggards. If you put these companies in quartiles, we are really trying to avoid the bottom-quartile ESG companies. Depending on a company's sector or industry determines how much emphasis is placed on each factor. To be clear, all of our companies are analyzed broadly from an environmental, social and governance perspective. In terms of emphasis, if we are analyzing an energy or materials company, we are going to take a very close look at its environmental record and policies. Alternatively, if it is a consumer discretionary name with offshore manufacturing, we are going to pay close attention to the social and worker-safety aspect of the analysis.

TWST: Are these criteria built into your screen?

Mr. Moser: This is not built into our financial, multifactor screen. Once we have identified a company to conduct fundamental research, we have our ESG analysts here in Portsmouth start their work, and we, in effect, work side by side.

TWST: Can you walk us through an example of a company as it goes through that second-level screen, and help us understand the decision-making process and why the company is a standout for sustainability?

Mr. Moser: Rather than give a specific example of a company that is a standout ESG leader or laggard, I can walk you through the process. For this example, let's assume we're conducting research on a medical device company. Once we have an interest in researching the company, we have our ESG analysts conduct their analysis. They go through all publicly available data, source third-party research and go through databases looking for potential risk factors that affect the industry.

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They look at the safety and performance of the products and the company's sales practices. We obviously want to avoid companies that have aggressive sales practices. More broadly speaking, we look at corporate governance to ensure an alignment of interests with shareholders. Those are just a couple items that we research. In terms of our process, the team will provide a report on what the company does well, what the potential issues are and whether it meets our ESG criteria. From that point, we integrate that work back into our financial research and establish our fair-value estimate.

TWST: Is it fair to say that a typical investor in these funds is a believer in sustainability, and he or she is looking to invest in only companies that meet these kinds of standards?

Mr. Moser: We have a very broad investor base. As you mentioned, there is a group of investors in the fund that are very focused on sustainability and value the great work we do. The other group may be more focused on our strong risk-adjusted returns but understands the importance sustainability plays in our process.

TWST: Which trends, including policies, are you monitoring most closely in the marketplace as a portfolio manager, and why?

Mr. Moser: One of the bigger issues facing investors has to do with the broader economic recovery and the extent to which investors have priced that into valuations. I am spending a fair amount of time thinking about what could potentially go right and what could derail that. Obviously, I think the consensus sees 2017 as a good year for the economy. We concur with that view based on our belief that we will likely see corporate and personal tax rates cut, which would have a stimulative effect.

But we are also mindful that the Federal Reserve is tightening policy, interest rates are rising, and valuations are at levels that are nearing highs last seen in the late 1990s. That is a major concern, and if some of the anticipated positives don't materialize or potential negatives come up, the market could decline.

TWST: Why should an investor invest in your small-cap fund versus another?

Mr. Moser: This fund provides investors a way to gain access to the small-cap asset class in a risk-averse manner. We have demonstrated over time our ability to not only outperform the market but do so with approximately 25% less risk.

TWST: Is there anything else you wanted to add that I haven't touched upon?

Mr. Moser: One point I will make is that, as a risk-focused portfolio manager, we are always worried about something. I believe our investors pay us to manage risk and to make sure, when the market is volatile, that we do our best to preserve their assets that they have entrusted with us. Volatility is a normal part of the market. We have been in a very strong bull market and have had short bursts of volatility over the past year.

My expectation in the coming years is that we are going to see increased volatility and that those events shouldn't be viewed as solely negative. Strong, disciplined active managers use those periods to put cash to work and buy stocks on sale. I look favorably on these opportunities because that gives us the chance to generate alpha for our investors.

TWST: Thank you. (KJL)

NATHAN MOSER, CFA
Portfolio Manager
Pax World Investments
30 Penhallow St.
Suite 400
Portsmouth, NH 03801
www.paxworld.com

Pax Small Cap Fund Top Ten Holdings as of 03/31/2017: Legg Mason, Inc. 3.40%; Investors Bancorp, Inc. 3.20%; Capitol Federal Financial, Inc. 3.10%; Antero Resources Corp. 3.10%; Natus Medical, Inc. 3.10%; SemGroup Corp., Class A 2.90%; US Foods Holding Corp. 2.80%; Avnet, Inc. 2.60%; PDC Energy, Inc. 2.50%; Gentex Corp. 2.40%. Holdings are subject to change.

Alpha is a coefficient measuring risk-adjusted performance, considering the risk due to the specific security, rather than the overall market.

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.

You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. For this and other information, call 800.767.1729 or visit www.paxworld.com for a fund prospectus and read it carefully before investing.

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