

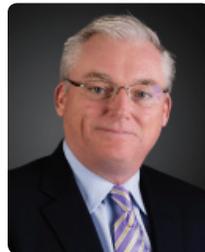
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Dear Fellow Shareholders,

The year 2015 may be remembered as the year sustainable investing went mainstream. Although interest in sustainable investing has been gathering momentum for some time, the past year saw a veritable explosion of media coverage, new fund launches, new entrants into the field and a growing consensus that integrating environmental, social and governance (ESG) concerns into investment strategies is an idea whose time has come.

Pax World, of course, has been at the forefront of this movement for some time.

For many years, we and a handful of our colleagues were lonely voices in the wilderness, calling on investors and financial markets to embrace sustainability, to think long term, to insist that corporations not only better serve their shareholders, but other stakeholders as well—their employees, the communities where they do business, the natural environment. Now

these sentiments are no longer in the minority. In fact, they are no longer even sentiments; they are a full-fledged investment discipline. Moreover, it is an investment discipline in high demand.¹ Not only do individuals and institutions want their investments to yield a fair return, but a positive social impact as well.

What is driving this sea change? What is changing the investment landscape so suddenly and dramatically? It is a confluence of many things, but let me point to a few:

Data. The research at this point is clear: integrating ESG factors into investment portfolios is a strategy for mitigating risk and achieving market or above-

market returns over the long term.² At Pax, we have always felt that companies that understand and embrace the imperative of sustainability will be better long-term investments, and historically, this turns out to be true. For example, there is now compelling—indeed overwhelming—research underscoring that where women are better represented on corporate boards and in corporate management, companies simply perform better.³ At Pax, we have long provided investors an opportunity to invest in these companies. Today, many other investment managers are following our lead and starting to do the same.

Not only do individuals and institutions want their investments to yield a fair return, but a positive social impact as well.

Demographics. It is also clear that certain investors, including perhaps the two fastest growing demographics within the investment landscape—women and Millennials—want their investments aligned with their values.⁴ They want to invest in companies with diverse leadership teams.⁵ They want to invest in companies that are making a positive difference in the world; that are part of the solution rather than part of the problem.⁶

Impact. There are certain fundamental global challenges—climate change and gender inequality clearly fall into this category—that not only demand change but demand that capital markets help drive that change. A new vision of the business corporation is emerging, replacing the old notion that the only duty of a corporation is to make a profit. Instead, a more expansive vision and set of expectations is taking hold, wherein consumers, investors and business leaders themselves increasingly agree that businesses need not only be more responsive to social and environmental

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Climate Change Remains a Top Priority for Pax World

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

2015 was a banner year for the climate change issue, as 195 nations met in

Paris at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) in December to forge a new agreement to reduce greenhouse gas emissions. Some analysts regard this as feeble, because the commitments made in Paris are not binding. Binding would be better, but this is nonetheless a major achievement, and these commitments are important. Without the work of companies and investors telling the negotiators that the world needs a carbon price, and that emissions reduction is not only possible but essential, would that agreement have been reached? Probably not.

Pax World has been part of numerous efforts to bring investor support to reducing carbon emissions, including:

- **The Carbon Disclosure Project**, in which over 820 investors annually urge companies to report on climate risks and opportunities and take steps to reduce emissions.
- **The Investor Network on Climate Risk**, which launched the Clean Trillion

initiative to invest a trillion dollars in clean energy annually.

- **RE100**, a coalition of investors with over £350 billion in assets that pressures corporations to commit to 100% renewable electricity.
- **Paris Green Bonds Statement**, launched by the Climate Bonds Initiative (CBI), is aimed at supporting long-term, sustainable green bond markets.
- **The Green Infrastructure Investment Coalition**, a product of the CBI and the Principles for Responsible Investment (PRI), which brings together investors, governments and development banks to improve the flow of capital to green infrastructure projects worldwide.
- **The G20 Energy Efficiency Investor Statement**, launched by the PRI, the United Nations Environment Programme Finance Initiative, and Ceres, aims to integrate energy efficiency into investment activities including portfolio construction, engagement, proxy voting, and asset allocation.

None of these, by themselves, were sufficient to turn the world's emissions around overnight, but it is noteworthy that in 2014, for the first time, the world's carbon emissions went flat while the economy grew. It's progress. To try to keep up that progress, we filed three shareholder resolutions urging companies to address business operations with an eye toward reducing greenhouse gas emissions and using more renewable energy (Nucor, American Electric Power, and Duke Energy).¹

Being an investor gives us a voice, as an owner of a company or other security issuer, or as a creditor of such enterprises. We use that voice to let corporations know what we think will make them both better investments and more sustainable. We focus our advocacy on the things we see as the most pressing problems, and that means climate change remains a priority. It's an issue that if left unaddressed, would continue to impair economic growth and financial performance, and it is an issue that investors have tools to address constructively. 

¹As of 12/31/15, Nucor Corporation was 1.2% of holdings of the Pax Growth Fund. American Electric Power Company, Inc. was 0.2% of holdings of the Pax Ellevest Global Women's Index Fund. Duke Energy Corporation was 0.3% of holdings of the Pax Ellevest Global Women's Index Fund. Holdings are subject to change.



What's Trending Now



Pax World @PaxWorld
'Sustainable investing is a way to invest in companies that are part of the solution' — @PaxWorld
CEO Joe Keefe on.wsj.com/1ZVM8F5



Pax Ellevest (PXWEX) @PaxEllevest
Going from zero women leaders to 30% linked to 15% higher profits, study says nyti.ms/20mbDxC via @nytimes
[#investinwomen](https://twitter.com/investinwomen)



Women Thrive @WomenThrive
@PaxWorld CEO and @WomenThrive Board member Joe Keefe fights to close pay gap for women: bit.ly/1KKyoib #fem2



Julie Gorte @jgorte
Hundreds of businesses & investors support
[#CleanPowerPlan](https://twitter.com/CleanPowerPlan) as

core component of US [#climate](https://twitter.com/climate) commitment. So do we:
ow.ly/YeeWx



Pax World @PaxWorld
Paris Agreement 'decisive turning point'

on [#climatechange](https://twitter.com/climatechange), says new
@UN senior adviser
bit.ly/1POKQUh

Closing the Gender Pay Gap

You've probably heard a lot about the gender pay gap. The topic has dominated headlines from the *New York Times*, to *Fortune*, to *Freakonomics*, to the *Atlantic*, to the *Wall Street Journal*—and was a point of discussion at the recent World Economic Forum in Davos. Even Hollywood stars are shining the spotlight on the fact that male and female actors often are not paid equally for appearing in the same film. And in January, President Obama proposed new rules aimed at closing the gender pay gap.

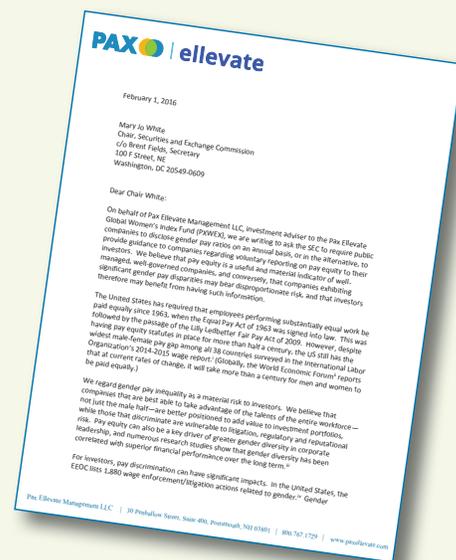
And yet, despite all this attention being paid to the issue, the facts remain discouraging:

- The average woman in the U.S. makes just 79 cents for every dollar earned by the average man.¹
- There's been only a 3 percent closure of the gender gap over the last 10 years.²

- At the current rate of progress, women may not reach pay parity until 2133³

We not only believe that pay equity is critical to advancing women in business, but that gender disparities may pose material risks to investors, and companies should therefore publicly disclose this information.

That is why Pax World is involved in several shareholder advocacy initiatives aimed at closing the gender pay gap, including filing shareholder proposals at Apple, eBay, and Amazon⁴, requesting the disclosure of pay equity assessment results. And in January, Pax Ellevest, a joint venture of Pax World and Ellevest Asset Management, **submitted a letter to the Securities and Exchange Commission (SEC)** urging the agency to either require companies to disclose pay equity data, or to issue guidance for the



voluntary disclosure of such information.

In our view, businesses that take proactive steps to close whatever inequities may exist

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Pax World Fund News

New Pax Mid Cap Fund

We are pleased to introduce the Pax Mid Cap Fund as the newest member of our mutual fund family as of March 31, 2016. If the portfolio manager looks familiar, it's because Nathan Moser and his team also manage the Pax Small Cap Fund, and the small- to mid-cap portion of the Pax Balanced Fund.

Nathan is applying the same risk-averse investment strategy to mid-cap stocks that he has in the small-cap area of the market since 2008. The team seeks undervalued companies with high-quality fundamentals and a catalyst to unlock value. The mid cap area of the market has delivered historically favorable risk-reward performance over the long-term.

Now Pax World shareholders can gain access to the full small- to mid-cap spectrum through the Small Cap and Mid Cap funds. Both funds integrate environmental, social and governance (ESG) research into fundamental analysis for additional perspective and risk mitigation.



Pax Mid Cap Fund Portfolio Management Team from left to right: Nathan Moser, CFA®, Portfolio Manager; Charles Page, CFA®, Senior Analyst.

ESG Managers Portfolios are now Pax Sustainable Managers Funds

Effective March 29, 2016, four ESG Managers Portfolios were reorganized as the Pax Sustainable Managers Funds.

- The ESG Managers Growth Portfolio and the ESG Managers Growth and Income Portfolio have transitioned to the Pax Sustainable Managers Capital Appreciation Fund.
- The ESG Managers Balanced Portfolio and the ESG Managers Income Portfolio

have transitioned to the Pax Sustainable Managers Total Return Fund.

The funds' portfolio management team remains the same, offering investors interested in sustainability an asset allocated solution comprised of premier managers that incorporate ESG issues into their approach. Morningstar Investment Management will continue to perform asset allocation, manager selection, and portfolio construction duties.

Effective on or about March 29, 2016 the ESG Managers Growth Portfolio will be consolidated into the ESG Managers Growth and Income Portfolio, and the ESG Managers Growth and Income Portfolio will be renamed the Pax Sustainable Managers Capital Appreciation Fund. The ESG Managers Balanced Portfolio will be consolidated into the ESG Managers Income Portfolio, and the ESG Managers Income Portfolio will be renamed the Pax Sustainable Managers Total Return Fund. All references to the ESG Managers Growth and Income Portfolio are replaced with "Pax Sustainable Managers Capital Appreciation Fund" and all references to the ESG Managers Income Portfolio are replaced with "Pax Sustainable Managers Total Return Fund". Please see the Prospectus by visiting paxworld.com/documents for further information concerning corresponding changes to the Principal Investment Strategies and Investment Objectives of the Pax Sustainable Managers.

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are better positioned to succeed, while those that discriminate can be vulnerable to litigation, regulatory, and reputational risk. On an encouraging note, there are companies taking action to fix the problem, from conducting internal pay assessments, to examining pay ratios by gender, to making such data public.

We believe the sooner men and women are paid equally for equal work, the sooner businesses and society as a whole can enjoy the economic benefits of engaging the talents of our entire workforce, not just one half. 🌱

¹National Women's Law Center, FAQ About the Wage Gap, September, 2015. https://nwlc.org/wp-content/uploads/2015/08/faq_about_the_wage_gap_9.23.15.pdf

²Allison Maloney, "What have we learned about the gender gap after a decade of study?," The New York Times, November 18, 2015. <http://nytlive.nytimes.com/womenintheworld/2015/11/18/what-have-we-learned-about-the-gender-gap-after-a-decade-of-study/>

³Lisa Quast, "The Gender Pay Gap Issue Is Fixable - But May Require Bolder Actions To Overcome," November 22, 2015. <http://www.forbes.com/sites/lisaquast/2015/11/22/the-gender-pay-gap-issue-is-fixable-but-may-require-bolder-actions-to-overcome/#7eac2e2c7e88>

⁴As of 12/31/15, Apple, Inc. was 2.4% of holdings of the Pax Balanced Fund and 5.1% of the Pax Growth Fund. eBay, Inc. was 0.8% of holdings of the Pax Growth Fund. Amazon.com, Inc. was 1.5% of holdings of the Pax Balanced Fund and 2.3% of the Pax Growth Fund. Holdings are subject to change. The eBay and Amazon shareholder proposals were cofiled with Arjuna Capital.



JOE KEEFE, PAX WORLD PRESIDENT AND CEO LETTER TO SHAREHOLDERS CONTINUED from FRONT PAGE

concerns, but must help lead the transition to a more sustainable global economy. Businesses can help drive positive change, and we believe investors will increasingly reward those businesses that do.

We all want to make a difference. We all want to lead meaningful lives. Now, increasing numbers of us understand that our money, our investments, need to be part of this equation. We want a fair return, yes, but we also want to invest in organizations that are making a positive contribution to a better society and a healthier planet.

That's what sustainable investing is all about, and 2015 was a year where this idea in some ways finally broke through. Our work at

Pax has made a significant contribution in this regard, and we will continue to provide leadership and work with others to provide direction as this movement continues to grow.

As we move into 2016, I hope we can continue to provide investment solutions that meet your needs as well as your aspirations. I also hope that markets will not only be better, but that developments around the world, including elections here at home, take us in the direction of peace rather than conflict, liberty rather than oppression and justice rather than inhumanity. 🌱

¹SIF Foundation; 2014 Report on Sustainable and Responsible Investing Trends in the United States.

²Morgan Stanley Institute for Sustainable Investing, Sustainable Reality: Understanding the Performance of Sustainable Investment Strategies, 2015.

³Board Gender Diversity, Innovation and Firm Performance, Jie Chen, Woon Sau Leung and Kevin P Evans, May 25, 2015.

⁴2015 U.S. Trust Insights on Wealth and Worth® Survey, May 2015.

⁵Harnessing the Power of the Purse: Female Investors and Global Opportunities for Growth," Sylvia Ann Hewlett and Andrea Turner Moffitt with Melinda Marshall, Center for Talent Innovation, 2014.

⁶"Inspiring the New Generation Workforce: The 2014 Millennial Impact Report," 2014, The Case Foundation, casefoundation.org.



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trading volume. Investments in high yield bonds generally are subjected to greater price volatility based on fluctuations in issuer and credit quality. 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. There is also a chance that some of the fund's holdings may have their credit rating downgraded or may default. Funds that emphasize investments in smaller companies generally will experience greater price volatility. Investing in non-diversified funds generally will be more volatile and loss of principal could be greater than investing in more diversified funds. Pax Sustainable Managers are multi-manager funds. The Funds' allocations may change due to market fluctuations and other factors.

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.

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

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