

# First Investors Funds

# First Investors Special Situations Fund

## Ticker

FISSX (Class A)  
FISTX (Advisor)  
FISUX (Institutional)

## Fund Inception Date

9/18/90 (Class A)  
4/1/13 (Advisor and Institutional)

## Dividend Distribution

Annually (December)

## Benchmark

MSCI USA Small Cap Value Index<sup>1</sup>

## Morningstar Category

Small Value

## Number of Holdings as of 3/31/19

111

## Portfolio Managers

Steven S. Hill, since 2013  
Thomas Alonso, CFA, since 2019

## Overall Morningstar Rating



Advisor shares rated 4 overall stars by Morningstar among 393 Small Value funds for the period ended 3/31/19 based on risk-adjusted performance.<sup>2</sup>

## Market Overview

To say the U.S. stock market rebounded during the first quarter from the volatility and turmoil experienced at the end of 2018 would be an understatement. The S&P 500 Index gained 13.65% during the first quarter—its best first quarter total return since 1998. The Index erased most of its losses incurred during the market sell-off from September 21 through December 24 of last year, fueled by a dovish Federal Reserve (Fed) and hopes for a resolution to U.S.-China trade negotiations. At the same time, it is important to note that the S&P 500 is still below its 2018 peak reached last September, with the pace of economic growth expected to slow this year. Also, investor complacency, which vanished during the volatile end of last year, quickly returned in 2019 as calculated by the VIX Index.

As evidenced by the strong showing of the S&P 500, most stocks started the year off with a bang. Small-cap and mid-cap stocks experienced a very strong quarter as well, with the Russell 2000 Index and the S&P 400 Mid-Cap Index gaining 14.58% and 14.49%, respectively. Value stocks (as measured by the Russell 1000 Value Index) returned 11.93%, lagging growth stocks (as measured by the Russell 1000 Growth Index) which returned 16.10% from January through March. However, the forward price-to-earnings (P/E) ratio for the growth index is 21.3 compared to a forward P/E of 14.7 for the value index, which is indicative of a 44.8% premium. Value has continued to struggle compared to growth-style investing since late 2016.

All 11 S&P 500 sectors posted gains for the quarter, with Information Technology (19.86%) being the strongest sector, followed by Real Estate (17.53%) and Industrials (17.20%). Healthcare was the weakest performer at 6.59%, impacted by renewed efforts to repeal the Affordable Care Act (Obamacare). Financials were the second weakest sector, returning 8.56%, due to concerns about the potential impact on profitability from declining interest rates and a flattening yield curve.

## Performance Review

The First Investors Special Situations Fund was up 10.76% (Advisor Class) for the quarter, underperforming the MSCI USA Small Value Index (13.67%). The Fund's top contributing sectors for the quarter were Consumer Discretionary, Healthcare and Industrials. Stock selection in all three sectors served the Fund well, especially in Consumer Services, Life Sciences and Machinery. That said, our overweight in each of these sectors was also a driver of our overall performance.

The Fund's top detracting sectors for the quarter were Financials, Real Estate and Communication Services. An underweight position in all three sectors weighed on relative performance as all three sectors rose with the overall market. Within Financials, our overweight in insurance companies was rewarded, but this positive performance was offset by an underweight in banks and diversified financials.

<sup>1</sup> Effective January 31, 2019, the portfolio's benchmark changed from the Russell 2000 Value Index to the MSCI USA Small Cap Value Index.

<sup>2</sup> For the three-, five- and 10-year periods, respectively, the Fund was rated 4, 4 and 3 stars among 393, 346 and 238 funds in the US Fund Small Value funds category for the time period 3/31/19. The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product 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. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Past performance is no guarantee of future results.

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### Outlook

The Russell 2000 Value Index lagged both the Russell 2000 (11.92%) and the Russell 2000 Growth Index (17.12%) as investors rotated to growth and momentum names in the quarter. Despite the year-to-date rally, the Russell 2000 Value is off the highs reached in September of last year, even as large cap indices (such as the Dow Jones Industrial and the S&P 500) have been approaching prior peaks.

In the face of the strong start to the year, concerns of an economic slowdown persist and, in fact, may have increased when the Fed recently shifted to a more dovish stance. Earnings estimates have been trending lower, with talk of an “earning recession” (i.e., two consecutive quarters of flat/down EPS). As we move into the next earnings reporting season, corporate guidance will be top of mind for investors. As we’ve noted before, debt levels among small caps remain high, and we will monitor the category’s ability to grow earnings, maintain free cash flow, and reduce leverage.

We continue to believe that small caps with better-than-average balance sheets may outperform. Also, if revenue growth slows, merger & acquisition activity could pick up should management teams look to build scale. Identifying likely targets for acquisitions can drive outsized gains.

### Average Annual Total Return Performance as of 3/31/19 (%)

Class	QTD	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date	Expense Ratio Gross (%)	Net (%)
A (without sales charge)	10.69	10.69	-5.26	8.29	5.13	12.70	–	9/18/90	1.24	1.24
A (with sales charge)	4.31	4.31	-10.71	6.17	3.89	12.03	–	9/18/90	1.24	1.24
Advisor	10.76	10.76	-4.99	8.63	5.47	–	8.02	4/1/2013	0.95	0.95
Institutional	10.80	10.80	-4.87	8.77	5.59	–	8.20	4/1/2013	0.86	0.86
MSCI USA Small Cap Value Index	13.67	13.67	0.61	9.47	6.00	15.45	–	5/31/94	–	–
Small Value	12.13	12.13	-2.55	8.30	3.94	14.12	–	6/1/1956	–	–

Returns for periods less than one year are cumulative and not annualized.

### Top Ten Holdings as of 3/31/19 (%)

Holding	Industry	% of Total
Black Hills Corp.	Utilities	1.7%
Sterling Bancorp	Financial Services	1.6%
Prestige Brands, Inc.	Healthcare	1.5%
AllianceBernstein Holding, LP	Financial Services	1.4%
Travelport Worldwide, Ltd.	Consumer Cyclical	1.4%
Americold Realty Trust	Real Estate	1.4%
TCF Financial Corp.	Financial Services	1.4%
SPX Corp.	Industrials	1.3%
CNO Financial Group, Inc.	Financial Services	1.3%
Old National Bancorp of Indiana	Financial Services	1.3%

### Calendar Year Returns (%)

	2018	2017	2016	2015	2014	2013	2012
A (without sales charge)	-17.06	17.68	15.59	-1.05	5.71	29.97	9.34
Advisor	-16.80	18.02	15.96	-0.75	6.05	–	–
Institutional	-16.71	18.18	16.08	-0.59	6.17	–	–
MSCI USA Small Cap Value Index	-14.01	10.69	24.77	-5.83	8.90	32.69	18.67
Small Value	-15.46	9.10	25.74	-7.01	3.30	36.20	16.02

## First Investors Special Situations Fund

### Glossary

The **MSCI USA Small Cap Value Index** captures small cap securities exhibiting overall value style characteristics across the U.S. Equity markets. The value investment style characteristics for index construction are defined using book value to price, 12-month forward earnings to price and dividend yield.

The **S&P 400 Mid-Cap Index** is a capitalization weighted index of 400 publicly-traded companies with a medium amount of market capitalization.

The **Standard & Poor's 500 Index (S&P 500)** is a capitalization-weighted index of 500 stocks. The Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Russell 1000 Growth Index** measures the performance of the large- capitalization growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Index is a subset of the Russell 3000® Index, representing approximately 90% of the total market capitalization of that Index.

The **CBOE Volatility Index** (or VIX) is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options, calculated and published by the Chicago Board Options Exchange (CBOE).

The **Russell 2000 Value Index** measures the performance of the small-cap segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. 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.

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The **Morningstar Small Value**. Small-value portfolios favor U.S. firms at the smaller end of the market-capitalization range. The value style is assigned to portfolios where value characteristics predominate.

All investments involve risk, including possible loss of principal. You can lose money by investing in a fund. There is no guarantee that the Fund's investment objective will be achieved. The principal risks of investing in this Fund are: Exchange-Traded Fund Risk, Market Risk, REIT Risk, Security Selection Risk, Small-Size and Mid-Size Company Risk and Undervalued Securities Risk.

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance and expense ratios may be higher or lower than the data quoted. Performance of share classes will differ because each class is sold pursuant to different sales arrangements and bears different expenses. The Class A returns shown with sales charges are based on the maximum sales charge of 5.75%. Returns may reflect waivers or reimbursements of certain expenses. Absent these waivers or reimbursements, returns would be lower. To obtain more current performance data as of the most recent month-end, please visit [firstinvestorsfunds.com](http://firstinvestorsfunds.com).

These views represent the opinions of Foresters Financial and are not intended as investment advice or to predict or depict the performance of any investment. These views are as of the close of business on March 31, 2019 and are subject to change based on subsequent developments. We disclaim any responsibility to update such views. The Fund's portfolios and strategies are subject to change.

*For more information about First Investors Funds and variable products from Foresters Financial Services, Inc., you may obtain a free prospectus and summary prospectus by contacting your Financial Services Representative, calling 800 423 4026 or visiting [firstinvestorsfunds.com](http://firstinvestorsfunds.com). You should consider the investment objectives, risks, charges and expenses carefully before investing. The prospectus and summary prospectus contain this and other information about the funds, and should be read carefully before you invest or send money. An investment in these funds is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Neither Foresters Financial Services, Inc. nor its affiliates offer legal or tax advice. Please consult your tax adviser before making any tax-related retirement decisions.*