First Investors Funds

First Investors Special Situations Fund

Ticker

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

Fund Inception Date

9/18/1990 (Class A)
4/1/2013 (Advisor and Institutional)

Dividend Distribution

Annually (December)

Benchmark

Russell 2000 Value Index

Morningstar Category

Small Value

Number of Holdings as of 9/30/18

129

Portfolio Managers

Steven S. Hill, since 2013

Overall Morningstar Rating

★★★★

Class A shares rated 4 overall stars by Morningstar among 362 Small Value funds for the period ended 9/30/18 based on risk-adjusted performance.[4]

Market Overview

Despite simmering trade tensions, U.S. equities produced their best quarter in nearly five years as stocks were fueled by strong U.S. economic growth and upbeat corporate earnings. Economic data supporting the rally included second quarter GDP of 4.2%,[1] September's U.S. consumer confidence hitting its highest level since 2000, and average monthly initial jobless claims falling to the lowest level in almost 50 years.

Large cap stocks, which lagged last quarter, were the strongest market capitalization. The S&P 500 Index returned 7.71%, its best quarter since the fourth quarter of 2013. The Dow Jones Industrial Average outperformed other major indexes with a gain of 9.63% for the quarter. Small caps (measured by the Russell 2000 Index) gained 3.58% for the quarter. Small caps continued to outperform the broad market for the year as they are mostly domestic-centric companies and, therefore, are less impacted by international trade tensions.

As part of a wider restructuring of the Global Industry Classification Standards, the Telecommunication Services sector was replaced by Communication Services which now includes several FAANG[2] names such as Alphabet, Facebook and Netflix.[3] This move dramatically alters the sector's characteristics, incorporating a higher risk/return profile at the expense of its historically greater dividend yields. Healthcare, which benefited from a sector rotation accompanied by receding regulatory fears, was the best performing sector for the quarter with a return of 14.53%, outpacing Information Technology which gained 8.80%.

Performance Review

The First Investors Special Situations Fund was up 0.82% (Advisor Class) for the quarter underperforming the Russell 2000 Value Index (1.60%). The Fund's top contributing sectors for the quarter were Energy, Real Estate and Materials. Security selection in both Energy and Real Estate primarily drove the Fund's sector performance as the benchmark underperformed in both sectors for the quarter. Materials was also a large contributor to the Fund's benchmark relative performance for the quarter, outperforming in both stock selection and sector allocation. The top detractors for the quarter included Industrials, Communication Services and Utilities. Industrials, with the second largest weighting in the Fund after Financials, had a positive return for the quarter but underperformed relative to the benchmark. Communication Services and Utilities also contributed positively to the quarter's performance but due to underweights compared to the benchmark and security selection, underperformed on a relative basis.

[1] Source: Bloomberg, 9/30/18. Represents quarter-over-quarter, annualized.
[2] FAANG stocks also include Amazon and Apple. Google has re-branded itself as Alphabet.
[3] Source: MSCI, "The New GICS Communication Services Sector." This was part of a major restructuring of the Global Industry Classification Standards that occurred on 9/24/18, and saw several sectors reclassified.

(continued)

[4] For the three-, five- and 10-year periods, respectively, the Fund was rated 3, 4 and 4 stars among 362, 317 and 226 funds in the US Fund Small Value funds category for the time period 9/30/18. 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.

Foresters Financial

First Investors Special Situations Fund

Outlook

Looking to 2019, investors appear worried that companies cannot grow earnings in the absence of further tax cuts. In fact, companies whose earnings had benefited primarily from the tax changes have probably seen the most downward pressure on their stock prices. Also, on average, debt levels among small caps increased after Trump's election. These firms anticipated higher free cash flows due to lower taxes in a low interest rate environment. That said, many small caps operate with thinner profit margins and less financial flexibility than large caps. That means their ability to service debt is impacted when the economy slows. Worse, for those with a significant amount of short-term debt, the costs of refinanced debt will rise. We have seen small caps with the combination of high leverage and large short-term debt maturities sell off the most in the market.

Additionally, not all small caps are well insulated from trade wars and tariffs. While it's still true that most small caps are probably better insulated from large caps, among those that aren't—especially those sourcing goods from China—we see sell offs occurring.

The market is suggesting that economic growth has peaked and that the U.S. economy has entered the "late cycle". While many investors are unsure if the economy will actually shrink, they do not seem to believe it will grow like it has. The later stages of an economic cycle will affect the effectiveness of catalysts, regardless of whether or not the catalysts are gone. As on example of a catalyst, expansion into a new market may no longer be significant if core markets are eroding. As such, we are re-evaluating the investment thesis in all of our investments. If the current economic environment persists, we will look for companies that can play offense in the next phase of the economy, i.e., well-capitalized companies that may be able to take market share from weaker competitors. As another example, companies with pricing power in their sectors may be able to offset rising raw materials costs. Interestingly, the recent equity market selloff may have also increased the attractiveness of M&A targets. In fact, less well-capitalized targets may be forced to sell which may offer some intriguing investment opportunities.

Average Annual Total Return Performance as of 9/30/18 (%)

Class	QTD	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date	Expense Ratio Gross (%)	Net (%)
A (without sales charge)	0.74	2.10	7.50	12.51	9.74	10.02	–	9/18/90	1.31	1.31
A (with sales charge)	-5.08	-3.77	1.32	10.31	8.46	9.37	–	9/18/90	1.31	1.31
Advisor	0.82	2.36	7.83	12.86	10.06	–	10.87	4/1/2013	0.97	0.97
Institutional	0.85	2.43	7.95	13.00	10.23	–	11.06	4/1/2013	0.87	0.87
Russell 2000 Value Index	1.60	7.14	9.33	16.12	9.91	9.52	–	12/31/1978		
Small Value	1.03	4.71	8.41	13.75	8.36	10.03	–	6/1/1956		

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

Top Ten Holdings as of 9/30/18 (%)

Holding	Industry	% of Total
American Financial Group, Inc.	Financial Services	2.0%
Sterling Bancorp	Financial Services	1.6%
AptarGroup, Inc.	Consumer Cyclical	1.5%
Trinseo SA	Consumer Cyclical	1.4%
Berkshire Hills Bancorp, Inc.	Financial Services	1.4%
TCF Financial Corp.	Financial Services	1.3%
Brown & Brown, Inc.	Financial Services	1.3%
ServiceMaster Holdings, Inc.	Industrials	1.3%
AllianceBernstein Holding, LP	Financial Services	1.2%
Waddell & Reed Financial, Inc.	Financial Services	1.2%

Calendar Year Returns (%)

	2017	2016	2015	2014	2013	2012
A (without sales charge)	17.68	15.59	-1.05	5.71	29.97	9.34
Advisor	18.02	15.96	-0.75	6.05	—	—
Institutional	18.18	16.08	-0.59	6.17	—	—
Russell 2000 Value Index	7.84	31.74	-7.47	4.22	34.52	18.05
Small Value	9.10	25.74	-7.01	3.30	36.20	16.02

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Glossary

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.

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 **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

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 the Fund are: Exchange-Traded Fund Risk, Market Risk, REIT Risk, Security Selection Risk, Small-Size and Mid-Size Company Risk and Undervalued Securities Risk. Past performance is no guarantee of future results.

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 foresters.com.

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