

First Investors Funds

First Investors Covered Call Strategy Fund

Ticker

FRCCX (Class A)
FRCDX (Advisor)
FRCEX (Institutional)

Fund Inception Date

4/1/16 (All classes)

Dividend Distribution

Quarterly

Benchmark

CBOE S&P 500 Buy Write Index
The Standard & Poor's 500 Index

Morningstar Category

Options-based

Number of Holdings as of 12/31/18

Equity Holdings 40
Covered Call Options 43

Portfolio Managers

Foresters Investment Management Company, Inc. is the Fund's investment adviser and Ziegler Capital Management, LLC serves as subadviser to the Fund.

Wiley D. Angell, since 2016
(Ziegler)

Sean C. Hughes, CFA, since 2016
(Ziegler)

Market Overview

The fourth quarter started off on a high note with the Goldilocks environment continuing to push the boundaries of U.S. equities. However, a number of concerns led to market volatility which increased sharply during the end of the quarter, reflecting investors' increased worries about the health of the aging bull market. As a result, the S&P 500 Index experienced its worst December since 1931. The Index was down -13.52% from its September peak, wiping out all of its 2018 gains and ending the year down -4.38%.

Factors that weighed on market sentiment included ongoing trade tensions, concerns about softer growth, the flattening of the yield curve, uncertainty around future interest rate hikes, falling oil prices, weaker forward guidance on corporate earnings and a partial government shutdown.

Several market shifts were also evident during the last three months of the year. Small caps became the weakest market capitalization, losing -20.20% (as measured by the Russell 2000 Index). On the style front, value stocks outperformed growth stocks for the first time since the fourth quarter of 2016. Defensive and low volatility strategies outperformed growth and momentum strategies which had dominated the market during the first nine months of the year. Only one sector, Utilities, was slightly positive for the quarter, with the remaining 10 sectors in negative territory. The Dow Jones Industrial Average held up better than any of the other major indexes, down -11.31% for the quarter and -3.48% for the year.

Performance Review

The First Investors Covered Call Strategy Fund returned -13.22% (Advisor Class) during the fourth quarter versus -13.52% for the S&P 500 Index and -10.81% for the CBOE S&P 500 Buy Write Index. The call options in the Fund made a positive contribution of 221 basis points (bps) during the quarter compared to 271 bps for the call options in the CBOE S&P 500 Buy Write Index. The Fund's out-of-the-money¹ call options provided slightly less downside protection than the at-the-money² call options of the BXM Index. This was somewhat offset by writing options on single stocks, which tends to provide more call premium than the Index options of the CBOE S&P 500 Buy Write Index. Both the CBOE S&P 500 Buy Write Index and the Fund produced higher-than-expected betas during the quarter, as covered call strategies in general underperformed, mostly because the call options added less value than typically expected. When the fourth quarter began, implied volatility³, as measured by the CBOE Volatility Index, was far below average at 12.1%. As a result, the call options provided less downside protection than usual as the market began its descent. And on the first day of December, well into the market decline, the CBOE Volatility Index was at only 16.4%, still below the 20-year average of 19.9%.

Overall, the Fund was underweight the bond-proxy sectors (Utilities, Staples, Real Estate and Communication Services), which were the top-performing sectors during the quarter. The Fund was also overweight the worst-performing sectors during the quarter, including Industrials, Energy, and Technology. As a result, the Fund's stocks underperformed the benchmark's constituents by 177 bps during fourth quarter. Despite the negative allocation effect, stock selection was positive in Energy and Technology, as the Fund did not own the FANG⁴ stocks, which underperformed by a wide margin during the quarter.

¹ Out-of-the-money option has an exercise, or strike price, above (for a call option) or below (for a put option) the market price of the underlying asset. The value of such an option has only time value and no intrinsic value.

² At-the-money option has an exercise, or strike price, equal to the market price of the underlying asset. The value of such an option may only have time value and no intrinsic value.

³ Implied volatility is the volatility percentage that produces the best fit for all underlying option prices on that underlying stock.

⁴ FANG stocks include Facebook, Amazon, Netflix and Google. Google has re-branded itself as Alphabet.

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Outlook

Given current market valuations and record corporate earnings, stocks have many positives. The Fund, in particular, is invested in attractively valued equities with strong fundamentals and a bias toward U.S.-based earnings. Earnings per share for the stocks in the Fund are expected to grow 7.9% over the next 12 months, slower than the trailing year but close to its long-term average, as profit margins remain near record levels. The stocks are more attractively valued than the S&P 500, with a forward price-to-earnings rate of 12.2 for the stocks in the Fund versus 14.4 for the S&P 500.

The implied volatility spike during the fourth quarter was on par with the spike during the first quarter of the year, as the CBOE Volatility Index reached 36.07 on Christmas Eve. We took advantage of the implied volatility spike during the quarter by selling longer-term call options to “lock-in” the high implied volatility levels for longer, extending the duration of the option portfolio from 1.2 months at the beginning of the quarter to 3.8 months at quarter-end. The higher call premiums we wrote will gradually decline over the next three to six months. As a result, the Fund begins 2019 with not only attractively priced stocks, but also attractive call options.

Average Annual Total Return Performance as of 12/31/18 (%)

Class	QTD	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date	Expense Ratio	
									Gross (%)	Net (%)
A (without sales charge)	-13.27	-10.83	-10.83	–	–	–	1.82	4/1/16	1.36	1.30
A (with sales charge)	-18.25	-15.98	-15.98	–	–	–	-0.35	4/1/16	1.36	1.30
Advisor	-13.22	-10.58	-10.58	–	–	–	2.14	4/1/16	1.06	0.97
Institutional	-13.20	-10.51	-10.51	–	–	–	2.29	4/1/16	0.96	0.84
CBOE S&P 500 Index	-10.81	-4.77	-4.77	4.84	5.08	7.96	–	6/30/86	–	–
S&P 500 Index	-13.52	-4.38	-4.38	9.26	8.49	13.12	–	9/11/89	–	–
Options-based	-8.24	-5.49	-5.49	2.66	2.25	4.05	–	12/7/77	–	–

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

Top Ten Holdings as of 12/31/18 (%)

Holding	Industry	% of Total
Medtronic, PLC	Healthcare	5.2
Microsoft Corp.	Technology	4.8
Apple, Inc.	Technology	4.7
JPMorgan Chase & Co.	Financial Services	4.3
Chevron Corp.	Energy	4.1
Cisco Systems, Inc.	Technology	3.9
Honeywell International, Inc.	Industrials	3.8
Costco Wholesale Corp.	Consumer Defensive	3.6
Intel Corp.	Technology	3.4
DowDuPont, Inc.	Basic Materials	3.3

Calendar Year Returns (%)

	2018	2017	2016	2015	2014	2013	2012
A (without sales charge)	-10.83	10.94	–	–	–	–	–
Advisor	-10.58	11.40	–	–	–	–	–
Institutional	-10.51	11.57	–	–	–	–	–
CBOE S&P 500 Index	-4.77	13.00	7.07	5.24	5.64	13.26	5.20
S&P 500 Index	-4.38	21.83	11.96	1.38	13.69	32.39	16.00
Options-based	-5.49	8.58	4.19	-0.75	4.22	12.05	5.89

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Glossary

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe. 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 2,000 of the smallest securities based on a combination of their market cap and current index membership.

The **Standard & Poor's 500 Index** 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 **CBOE S&P 500 Buy Write Index** is designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index.

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 Options-based Category** consists of portfolios that use options as a significant and consistent part of their overall investment strategy.

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: American Depository Receipts Risk, Call Options Risk, Dividend Risk, Exchange-Traded Funds Risk, High Portfolio Turnover and Frequent Trading Risk, Market Risk, Mid-Size and Small-Size Company Risk, Sector Risk, Security Selection Risk and Tax 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.

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