2018 Fourth Quarter Fund Commentary

First Investors Funds

# First Investors Select Growth Fund

**Ticker**

FICGX (Class A)
FICHX (Advisor)
FICIX (Institutional)

**Fund Inception Date**

10/24/00 (Class A)
4/1/13 (Advisor and Institutional)

**Dividend Distribution**

Annually (December)

**Benchmark**

Russell 3000 Growth Index[1]

**Morningstar Category**

Large Growth

**Number of Holdings as of 12/31/18**

41

**Portfolio Managers**

Foresters Investment Management Company, Inc. is the Fund's investment adviser and Smith Asset Management Group, LP serves as subadviser of the Fund.

John D. Brim, CFA, since 2000
Stephen S. Smith, CFA, since 2000
Eivind Olsen, CFA, since 2000

**Overall Morningstar Rating**

★★★

Class A shares rated 4 overall stars by Morningstar among 1,247 Large Value funds for the period ended 12/31/18 based on risk-adjusted performance.[2]

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## 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 Select Growth Fund was down -15.79% (Advisor Class) for the fourth quarter, slightly outperforming the Fund's benchmark, the Russell 3000 Growth index (-16.33%). The Communication Services sector was the best absolute- and relative-performing sector, while Consumer Staples was the largest detractor to relative Fund performance. In Communication Services, the Fund held only TripAdvisor and Alphabet. Travel website TripAdvisor gained 5.6% as it bounced back nicely after a difficult report last quarter. A decline in hotel shoppers continued to drag on sales, but a shift to higher margin activity is delivering significant margin improvement, driving better-than-expected profit. While Alphabet shares declined 13.5%, the position size was just slightly larger than the benchmark, so the relative effect was negligible. The timing of the Facebook sale in the third quarter was fortuitous as shares dropped 20% in the fourth quarter, so not owning it added value, as did not owning Netflix, which declined 28%.

Stock selection in the Consumer Staples sector was a laggard, with a negative -14.4% return for the Fund sector versus a 6.8% loss in the benchmark. The Fund did not hold big defensive names like Procter & Gamble (+11%) or Coca-Cola (+3%), which hurt relative performance. But the Fund's position in the world's largest retailer, Wal-Mart, (-0.3%) was a positive contributor on a relative basis. The company reported sales were a bit short, but the strategy to accelerate innovation coupled with new technology is driving better-than-expected profitability. E-commerce is beginning to deliver sales growth in excess of 30% and in-store innovation is fostering convenience, improving the customer experience at a lower cost. Food wholesaler Sysco (-9%) was sold due to waning cost-cut benefits and weak sales in international operations, but not before it suffered a significant drop. New holding Walgreens Boots Alliance (-19%), a pharmacy-led health and wellness company, was added in December on strong momentum in high-quality earnings shortly before reporting better-than-expected results. Unfortunately, it was hit hard in the ensuing market downturn during its short holding period.

[1] Effective January 31, 2019, the portfolio's benchmark changed from the Russell 3000 Growth Index to the Russell 1000 Growth Index.

[2] For the three-, five- and 10-year periods, respectively, the Fund was rated 3, 3 and 2 stars among 1247, 1107 and 799 funds in the US Fund Large Value funds category for the time period 12/30/18. 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.

# First Investors Select Growth Fund

## Outlook

On December 19, the Federal Reserve (Fed) voted unanimously to raise interest rates. This action was followed by the Fed Chairman's comments stating that a slowing global economy and increased market volatility had "not fundamentally altered the outlook" for additional interest rate hikes which threw more fuel on the maelstrom of volatility. Fears of an interest rate policy mistake by a Fed that may not be as independent as previously thought, coupled with a lingering trade war(s), was enough to push an already nervous market into bear territory. The quarter ended with a true "December to remember" as the market posted its worst final month of the year since 1931. Above-trend economic growth, coupled with larger wage increases, have historically been a recipe for Fed tightening. Therefore, to date, the monetary tightening is consistent with history. While core inflation seems to be under control, the speed of wage growth continues to edge higher and is now at an annual rate of 3.24%. So the question becomes, when is the Fed tightening too much? Historically, the real fed funds rate is quite elevated before a recession, so the current 0.35% would appear to have plenty of room to rise before reaching peaks like the ones preceding prior recessions, which were well in excess of 3%. This measure would suggest the economy can handle more tightening, but the market may need time to digest it.

We continue to believe that equities should be able to generate healthy returns going forward as robust economic growth should provide a solid foundation for strong earnings growth by the companies held by the Fund. We continue to believe our focus on high quality companies where earnings will exceed market expectations is the key to generating excess returns over the long term.

### 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) | -15.80 | -3.95 | -3.95 | 9.59 | 8.89 | 12.18 | – | 10/24/00 | 1.25 | 1.25 |
| A (with sales charge) | -20.64 | -9.49 | -9.49 | 7.45 | 7.60 | 11.52 | – | 10/24/00 | 1.25 | 1.25 |
| Advisor | -15.79 | -3.65 | -3.65 | 10.01 | 9.29 | – | 12.07 | 4/1/13 | 0.84 | 0.84 |
| Institutional | -15.73 | -3.58 | -3.58 | 10.05 | 9.36 | – | 12.19 | 4/1/13 | 0.82 | 0.82 |
| Russell 3000 Growth Index | -16.33 | -2.12 | -2.12 | 10.85 | 9.99 | 15.15 | – | 12/29/78 | | |
| Large Growth | -15.42 | -2.07 | -2.07 | 8.99 | 8.18 | 13.76 | – | 12/1/25 | | |

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

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

| Holding | Industry | % of Total |
|---|---|---|
| Adobe, Inc. | Technology | 4.7 |
| Cadence Design Systems, Inc. | Technology | 4.1 |
| Centene Corp. | Healthcare | 3.7 |
| Eli Lilly & Co. | Healthcare | 3.6 |
| Microsoft Corp. | Technology | 3.4 |
| Home Depot, Inc. | Consumer Cyclical | 3.3 |
| Arista Networks, Inc. | Technology | 3.3 |
| AutoZone, Inc. | Consumer Cyclical | 3.1 |
| NetApp, Inc. | Technology | 3.0 |
| PayPal Holdings, Inc. | Financial Services | 2.9 |

### Calendar Year Returns (%)

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|
| A (without sales charge) | -3.95 | 32.16 | 3.69 | 2.81 | 13.15 | 33.09 | 12.81 |
| Advisor | -3.65 | 32.67 | 4.14 | 3.24 | 13.47 | 33.29 | 12.81 |
| Institutional | -3.58 | 32.72 | 4.14 | 3.33 | 13.60 | 33.67 | 12.81 |
| Russell 3000 Growth Index | -2.12 | 30.21 | 7.08 | 5.67 | 13.05 | 33.48 | 15.26 |
| Large Growth | -2.07 | 27.67 | 3.23 | 3.60 | 10.00 | 33.92 | 15.34 |

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## Glossary

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 **Russell 3000 Growth Index** measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Index is an unmanaged index that measures the performance of the 3000 largest U.S. companies based on total market capitalizations.

The **Morningstar Large Growth.** Large-growth portfolios favor U.S. firms at the larger end of the market-capitalization range. The growth style is assigned to portfolios where growth characteristics predominate.

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.

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: Focused Portfolio Risk, Growth Stock Risk, Market Risk, Mid-Size and Small-Size Company Risk, Sector Risk and Security Selection 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.

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 December 31, 2018, 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. 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.*

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