

# 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

Russell 2000 Value Index<sup>1</sup>

## Morningstar Category

Small Value

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

111

## Portfolio Managers

Steven S. Hill, since 2013

## Overall Morningstar Rating



Advisor shares rated 4 overall stars by Morningstar among 367 Small Value funds for the period ended 12/31/18 based on risk-adjusted performance.<sup>2</sup>

## 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 Special Situations Fund was down 18.71% (Advisor Class) for the quarter, modestly underperforming the Russell 2000 Value Index (-18.68%). The Fund's top contributing sectors for the quarter were Real Estate, Communication Services and Consumer Staples. Our underweights of Real Estate and Communication Services served us well, as both sectors fell during the quarter. That said, stock selection in Communication Services was also important, as one of our Media holdings had a strong quarter. Stock selection, meanwhile, was the primary driver of outperformance in Consumer Staples, as our Food Distributors and Packaged Foods stocks also had a strong quarter.

The top detracting sectors for the quarter included Industrials, Materials and Consumer Discretionary. Our overweight of these three sectors weighed on performance, as all of them fell during the quarter. However, stock selection was also a factor in Industrials and Materials. In Industrials, our Machinery holdings fell largely on concerns about falling oil prices and trade wars. In Materials, our Chemicals and Containers holdings underperformed for the same reasons.

<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 3, 4 and 4 stars among 367, 325 and 228 funds in the US Fund Small Value funds category for the time period 12/31/18. 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.

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### Outlook

The Russell 2000 Value Index turned in its worst performance since 2008, despite being up about 10% through the first eight months of the year. The sell-off has brought small-cap valuations close to their lowest level since 2013, both on an absolute basis and versus large-caps, suggesting some downside support on a relative basis. Also, M&A activity among small-caps has picked up as valuations have come down.

That said, concerns over an economic slowdown persist. Macroeconomic research suggests that 2%-3% economic growth translates to about 9% earnings growth for small-caps. Heading into the next earnings season, 2019 guidance will take center stage, especially since estimates have already started coming down. Also, while small-cap debt levels are falling, they're still above long-term averages. Historically, small-caps underperform large-caps when credit spreads widen (small-caps are generally perceived as "riskier" assets).

For these reasons, small-caps with better-than-average balance sheets may outperform. Also, if M&A activity persists, then identifying likely targets will be crucial: therefore, it's possible that these small-caps may possibly become the largest sources of outsized gains in 2019.

### 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) | -18.76 | -17.06 | -17.06 | 4.10    | 3.36    | 10.72    | –               | 9/18/90        | 1.31          | 1.31    |
| A (with sales charge)    | -23.44 | -21.83 | -21.83 | 2.07    | 2.15    | 10.07    | –               | 9/18/90        | 1.31          | 1.31    |
| Advisor                  | -18.71 | -16.80 | -16.80 | 4.42    | 3.69    | –        | 6.47            | 4/1/2013       | 0.97          | 0.97    |
| Institutional            | -18.69 | -16.71 | -16.71 | 4.54    | 3.81    | –        | 6.65            | 4/1/2013       | 0.87          | 0.87    |
| Russell 2000 Value Index | -18.67 | -12.86 | -12.86 | 7.37    | 3.61    | 10.40    | –               | 12/31/1978     |               |         |
| Small Value              | -19.16 | -15.46 | -15.46 | 5.12    | 1.86    | 11.00    | –               | 6/1/1956       |               |         |

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

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

| Holding                        | Industry           | % of Total |
|--------------------------------|--------------------|------------|
| Sterling Bancorp               | Financial Services | 1.5        |
| Black Hills Corp.              | Utilities          | 1.5        |
| Aspen Insurance Holdings, Ltd. | Financial Services | 1.5        |
| AllianceBernstein Holding, LP  | Financial Services | 1.4        |
| TCF Financial Corp.            | Financial Services | 1.4        |
| Waddell & Reed Financial, Inc. | Financial Services | 1.3        |
| Prestige Brands, Inc.          | Healthcare         | 1.3        |
| Americold Realty Trust         | Real Estate        | 1.3        |
| Wolverine World Wide, Inc.     | Consumer Cyclical  | 1.2        |
| Travelport Worldwide, Ltd.     | Consumer Cyclical  | 1.2        |

### 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 | –     | –     |
| Russell 2000 Value Index | -12.86 | 7.84  | 31.74 | -7.47 | 4.22 | 34.52 | 18.05 |
| Small Value              | -15.46 | 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 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).

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