

# First Investors Hedged U.S. Equity Opportunities Fund

## Risk balancing for a smoother ride

A Class Shares: FHEJX  
Advisor Class Shares: FHEKX

The First Investors Hedged U.S. Equity Opportunities Fund is a core equity solution to help strengthen an investor's portfolio by targeting total return and capital preservation. The Fund combines a risk-balanced portfolio of highly active managers with a hedging overlay that allows clients to maintain U.S. equity exposure while minimizing the adverse impact of volatility.



**Gregg R. Thomas, CFA**  
Portfolio Manager

## Safeguarding capital from market disruptions

### U.S. equities provide the foundation

U.S. equities serve as a major asset class for investors across the globe. As one of the world's leading economies and with a growth rate of nearly 270%<sup>1</sup>, it is clear why investors maintain a core portfolio allocation to this U.S. asset class. This market still has challenges, with volatility arguably being one of the most prominent.

### Sources of volatility

Volatility can stem from several sources. There are the ups and downs of individual stocks and more macro-related market events such as interest rate hikes or regulatory reform. Instability can also arise from unexpected events, sometimes referred to as "tail risks" due to their lower expectations of occurrence. Despite

these disruptions, it is still important for investors to maintain a core U.S. equity allocation, but with a great level of protection incorporated within their portfolios.

### Insulating equity exposure

Limiting a portfolio's equity exposure to volatility can be accomplished effectively through a combined approach of diversifying stock holdings to minimize volatility associated with individual stocks; balancing risk based biases from style factors such as growth, value and quality; and by minimizing harmful macro-level influences stemming from the unexpected.



**Roberto Isch, CFA**  
Portfolio Manager

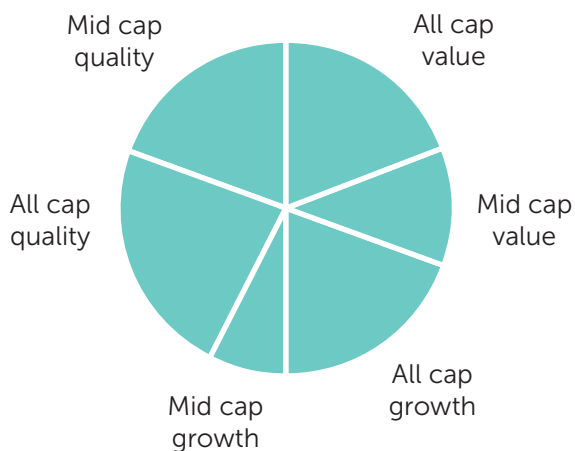
<sup>1</sup> Source Morningstar. Based on the S&P 500 over the last 20 years ending 7/31/18.

### Diversifying risk factors with hedging

The First Investors Hedged U.S. Equity Opportunities Fund combines a highly active, risk-balanced equity portfolio with an integrated hedging overlay. The Fund is designed to participate in up markets by perusing equity drivers of returns, while reducing the volatility associated with market downturns.

The Fund's **risk balanced equity portfolio** (shown in *Exhibit 1*) utilizes Wellington Management Company LLP (Wellington Management), the funds subadviser, array of actively managed U.S. equity strategies to construct a multi-basket portfolio which is balanced across styles and capitalization structures, leading to heightened diversification. Each equity strategy is assessed for portfolio fit and allocated based on its contribution to the portfolio's risk-balanced factor model focusing on value, growth and quality categories.

### Exhibit 1: Multi factor-based equity portfolio



The portfolio's **hedging overlay strategy** (shown in *Exhibit 2*) is entirely integrated into its construction process, and seeks to minimize the Fund's alignment with the overall U.S. equity market by reducing the portfolio's market risk (beta) and against more extreme downturns by also offsetting market exposure, but with a longer time horizon approach.

Combining the Fund's equity risk-based portfolio with its hedging strategy creates a more complete, diversified risk approach to help protect against the various sources of volatility and mitigate their collective impact on the portfolio, helping to provide a smoother ride for investors.

### Exhibit 2: Portfolio construction process



## A trusted advisor and strategic partner

The First Investors Hedged U.S. Equity Opportunities Fund is managed by Gregg R. Thomas, CFA and Roberto Isch, CFA of Wellington Management. Together, Gregg and Roberto have over 30 years of investment experience in portfolio and risk management. This team's expertise is supported by a dedicated team of risk managers and analysts, in addition to the deep resources of investment professionals overseeing Wellington Management's vast investment strategies. Wellington Management manages more than \$1 trillion in assets as a trusted advisor and strategic partner to institutional and retail clients across the globe.

First Investors Funds has a long history of managing active mutual funds across multiple asset classes with an approach seeking to deliver consistent long-term performance within a robust risk management framework. Our parent company, Foresters Financial, is an international financial services provider with over three million clients globally and over \$35 billion in assets under management. With a history of more than 140 years, Foresters Financial provides life insurance, savings, retirement and investment solutions.

Together, Foresters Financial and Wellington Management have created a strong partnership to provide investors with valuable investment expertise and the tools to help clients meet their financial goals.

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## Glossary

### Beta

Beta is the measure of an asset's risk in relation to the market (for example, the S&P500) or to an alternative benchmark or factors. Roughly speaking, a security with a beta of 1.5, will have move, on average, 1.5 times the market return. [More precisely, that stock's excess return (over and above a short-term money market rate) is expected to move 1.5 times the market excess return.] According to asset pricing theory, beta represents the type of risk, systematic risk, that cannot be diversified away.

### Factor-based (Investing)

Factor investing is a strategy that chooses securities on attributes that are associated with higher returns. There are two main types of factors that have driven returns of stocks, bonds, and other factors; macroeconomic factors and style factors. The former captures broad risks across asset classes while the latter aims to explain returns and risks within asset classes. Some common macroeconomic factors include credit, inflation, and liquidity whereas style factors embrace style, value, and momentum, just to name a few.

### Tail Risk

The possibility that an investment included in a portfolio will shift more than three standard deviations from its current price.

### Volatility

Volatility is a statistical measure of the dispersion of returns for a given security or market index. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index. Commonly, the higher the volatility, the riskier the security.

Source: NASDAQ, investorwords.com, Investopedia

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All investments involve risk, including possible loss of principal. You can lose money by investing in a fund. There is no guarantee that a fund

will meet its investment objective. The principal risks of investing in the Fund are: Derivatives Risk, Emerging Market Risk, Exchange-Traded Funds Risk, Foreign Securities Risk, Hedging Risk, High Portfolio Turnover Risk, Market Risk, Mid-Size and Small-Size Company Risk, Multi-Style Risk, Quantitative Strategies Risk, Security Selection Risk and Tax Risk. **Past performance is no guarantee of future results.** 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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