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Investment perspectives

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First Investors Limited Duration Bond Fund

Key highlights:

- We do not expect any additional tightening this year by the Federal Reserve.
- Sharp swings in interest rates are largely triggered by Fed action and, historically, have been better absorbed by short-dated securities than those further out on the yield curve.
- We like the value that can be found in the front end of the curve.

Why consider shorter duration today?

Rodwell Chadehumbe, Portfolio Manager, provides some thoughts on the **First Investors Limited Duration Bond Fund** along with his economic outlook.

Why should an investor consider allocating to a short-term duration bond fund like the First Investors Limited Duration Bond Fund?

Rodwell Chadehumbe (RC): If you want to reduce risk related to interest rate movements, a short-duration fund makes sense for a number of reasons. First, there is the inherently defensive nature of these types of funds. With a short-maturity horizon, there is a higher likelihood that bonds in these portfolios will pay investors back. Also, if you look at the bond market yield curve and its fluctuations, there have been significant swings, and we think these sudden spikes are likely to increase in frequency. When these movements occur in the intermediate- to long-term portion of the curve, they can have a substantial impact. But, in the short-end, where the Limited Duration Bond Fund invests, these swings tend to be better absorbed than those further out on the curve. We also think that being able to invest across various fixed income sectors offers a high level of diversification for an investor and is a key consideration for this Fund. Finally, combined with the lower volatility typically experienced in this sector, this Fund can offer its investors an attractive source of income.

What is the Fund's objective?

RC: The objective is to seek current income consistent with low volatility of principal in a short duration portfolio. This means that the Fund will usually hold securities with maturities of less than six years. At the same time, we are very mindful of where these bonds fall along the duration path. High yield bonds tend to be on the shorter-end of the yield curve, but they could fall beyond five years which, the Fund may purchase. By including high yield in its investment universe, the Fund can use these securities to help increase its overall yield and total return.

How is duration managed?

RC: We aim to maintain the Fund's duration between one and six years. The Fund may, from time to time, sell U.S. Treasury futures to help manage its overall duration.

Do you invest in any international securities?

RC: No. The Fund only invests in U.S.-issued securities, although it does, on occasion, invest in foreign companies that have U.S. dollar-denominated issuances. For your reference, the Fund's top 10 holdings as of 3/31/19 are shown in *Exhibit 1*.

Exhibit 1: First Investors Limited Duration Bond Fund

Top 10 holdings as of 3/31/19

Security	% of Total Net Assets
U.S. Treasury Notes, 1.375%, 10/31/2020	4.13
U.S. Treasury Notes, 2.625%, 12/31/2023	2.48
U.S. Treasury Notes, 2.500%, 1/15/2022	2.46
Morgan Stanley, 5.50%, 7/28/2021	1.97
JPMorgan Chase & Co., 4.500% 1/24/2022	1.95
Halfmoon Parent, Inc., 3.200% 9/17/2020	1.84
Georgia-Pacific, LLC, 5.400%, 11/1/2020	1.74
Sempra Energy, 3.060%, 3/15/201	1.72
Citibank Credit Card Issuance Trust, 2.490%, 1/20/2023	1.65
Tesla Auto Lease Trust, 3.710%, 8/20/2021	1.63
Total	21.57

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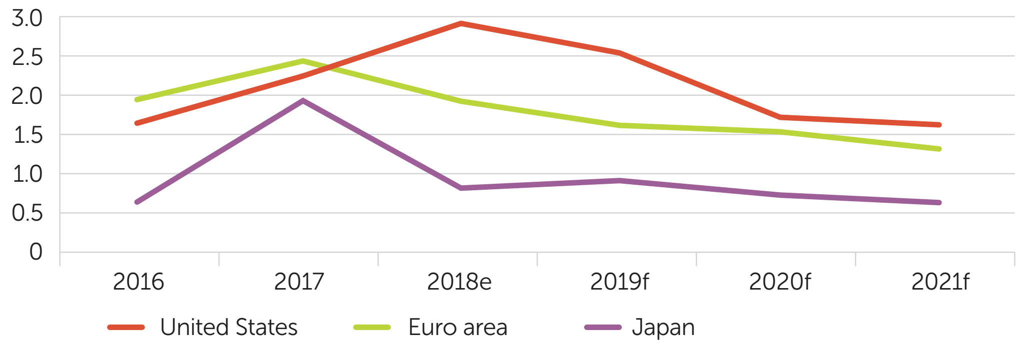
What are some of the biggest risks you see in fixed income today?

Given our view that the Fed is now in a pause mode, some of the current risks we see in the fixed income market center around a pick up in mergers & acquisitions activity, leading to more leverage within a number of the corporate sectors. Also, not to be overlooked is reinvestment risk. If the global economy is truly slowing down as it appears to be (see *Exhibit 2*), then one can expect yields to continue to march lower.

Exhibit 2: Global GDP growth slowing down in developed countries



Source: World Bank, January 2019. e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time.

Where are you finding opportunities today?

RC: The front to intermediate part of the yield curve, meaning three months to about seven years, offers some interesting opportunities, given that the curve remains relatively flat. In fact, portions of it are now inverted. Hence, investors are really not being compensated for assuming additional duration risk in longer-dated maturities. The Fund generally invests across investment grade sectors and out to five years and less. We continue to focus on relative value opportunities across these sectors.

High yield has had a strong rally to date. What is your outlook for this asset class?

RC: High yield has certainly had a strong rally year to date and spreads have tightened significantly for the one- to five-year portion of the market. However, we think that the technical backdrop remains supportive, with positive net inflows into the high yield market year to date.

On the topic of active versus passive management, can you discuss some of the advantages for using an actively managed fund in the short duration space versus an ETF or a passive manager?

RC: It is important to have an active manager to help mitigate risks within a fund, be it credit, political or duration risk. Through our forward-looking approach, our team is able to make adjustments to the Fund as markets change. More specifically, we evaluate the portfolio mix and economic trends so the Fund's holdings are evolving, along with any new challenges appearing in the marketplace. Passive management doesn't really incorporate that approach. Our style allows us to be more adaptive and flexible to market changes.

What are your expectations for the U.S. Treasury yield curve?

RC: Given the Fed has indicated that there won't be any interest rate hikes during 2019, we think that the yield curve will reverse a portion of its flattening bias and actually steepen. Such a change could see front-end yields leading the march into lower-yield territory as the same sector led the march higher when the Fed was in its earlier tightening cycle. Long-end yield compression is likely to be limited by continued U.S. dollar depreciation which could see inflationary pressures resurface. Indications for this scenario would be higher yields in the long end of the curve.

How does the Fed's guidance from the March FOMC meeting shape your management of the Fund?

RC: At their March meeting the Fed certainly appeared to be more dovish than the market anticipated. There were a number of key changes that arose from their deliberations. First, the Fed dropped its 2019 rate hike projections from two to zero. Second, their efforts to reduce the size of the Fed's balance sheet will end in September, with a slow runoff beginning in May. Third, the central bank also lowered its GDP forecast by 0.2% to 2.1% for 2020. Fourth, the Fed expects the unemployment rate to be at 3.8% in 2020 and 3.9% in 2021. Finally, it also stated that, although the economy continues to grow, its pace has slowed down so the Fed is choosing to be patient at the moment. During the accompanying press conference, Chairman Powell defined "patient" as meaning that the Fed would not need to rush to judgement. Against such a backdrop, the Limited Duration Bond Fund remains focused on closely managing its reinvestment risk.

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