Spotlight Fund

First Investors Funds

Hedged U.S. Equity Opportunities Fund

Wellington Management Company LLP

Wellington Management Company LLP serves as subadviser for the First Investors Hedged U.S. Equity Opportunities Fund. The Firm was founded in 1928 when it launched the first balanced mutual fund in the United States. Wellington Management offers comprehensive investment management capabilities that span nearly all segments of the global capital markets. Its investment solutions draw on a robust body of proprietary research and a collaborative culture that encourages independent thought and healthy debate. As a private partnership, its ownership structure fosters a long-term view that aligns its perspectives with those of its clients.

Kent Stahl
CFA®

Senior Managing Director and Director of Investments Strategy and Risk, Wellington Management Company LLP.

Mr. Stahl has served as Portfolio Manager of the Fund since its inception. As Director of Investment Strategy and Risk, Mr. Stahl focuses on investment trends and major risks across Wellington's equity, asset allocation, and fixed income products, platforms, and clients. He is also actively involved in their portfolio oversight processes and serves on a number of internal review committees.

Gregg Thomas
CFA®

Senior Managing Director and Associate Director of Investment Strategy and Risk, Wellington Management Company LLP.

Mr. Thomas has been involved in portfolio management and securities analysis for the Fund since its inception. As director of Risk Management, Gregg focuses on investment trends and major risks across Wellington's equity, asset allocation, and fixed income products, platforms and clients.

The team runs multi-strategy portfolios for institutional and individual investors throughout the world with a total of $22 billion of client assets under management as of June 30, 2016.

Foresters Financial

Q&A - First Investors Hedged U.S. Equity Opportunities Fund

Overview

What is the investment objective for the First Investors Hedged U.S. Equity Opportunities Fund?

The investment objective of the Fund is total return and, secondarily, capital preservation. The Fund will seek to achieve its investment objective by investing in a broadly diversified portfolio of common stocks of any market capitalization while also investing in derivatives to help manage investment risk.

Who manages the First Investors Hedged U.S. Equity Opportunities Fund?

Wellington Management Company LLP will subadvise the First Investors Hedged U.S. Equity Opportunities Fund. Portfolio Managers Kent Stahl and Gregg Thomas will manage the Fund.

What are the key strategies of this Fund?

The Fund is managed in a multi-style structure with a derivatives-based risk management overlay. The strategy will consist of three parts (Equity Strategy, Beta Management Strategy, and Tail Risk Mitigation Strategy), which will be detailed later in this Q&A.

What will the portfolio holdings look like?

The Fund will be investing in a broadly diversified portfolio of common stocks of any market capitalization while also investing in derivatives to help manage investment risk. Under normal circumstances, the Fund will invest at least 80% of its net assets (plus any borrowings for investment purposes) in equity securities of U.S. issuers and investments that provide exposure to such securities, including exchange-traded issuers and funds. The Fund defines U.S. issuers to include: (1) issuers that are incorporated or headquartered in the U.S.; (2) issuers whose securities are principally traded in the U.S.; (3) issuers with a majority of their business operations or assets in the U.S.; or (4) issuers who derive a majority of their revenues or profits from the U.S. This strategy will principally involve the purchase and sale of put and call options and the purchase of futures contracts. Typically, the overlay strategy will partially hedge overall risks to the Fund, but not the risks associated with single investments or groups of investments. To a lesser extent, the Fund also may invest in the equity securities of foreign issuers, including emerging market issues. The Fund may engage in active and frequent trading which may result in high portfolio turnover.

What are the core investment principles?

The Fund seeks to generate returns while striving to mitigate downside risk in a framework that we believe is academically rigorous and empirically valid. We fulfill two roles: We conduct risk reviews and performance analysis for the firm's portfolio managers, and serve as risk advisers and portfolio managers for clients. From this unique perspective, we have developed key principles that encapsulate our strongly held beliefs.

- **High active share is a useful measure of alpha potential, a critical element in structuring equity allocations, and a defense against closet indexing.** This principle is based on our belief that the potential to generate alpha increases as managers differentiate their portfolios from their benchmarks.

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- **The impact of risk factors on returns has increased materially and, given structural changes to markets, is unlikely to decline.** We have created a detailed proprietary risk-factor framework that we employ in our internal risk analysis and in the management of this Fund.
- **Investment decisions should be guided by risk considerations.** Our manager allocation process, factor research, risk tools and discussions with investors all start with a view on the markets. Increasingly, the pattern of alpha is as important to clients as the level of alpha.

Hedged Equity Experience

What experience does Wellington have in managing this type of Fund?

We leverage our risk expertise and in-depth knowledge of Wellington investors to construct multi-managed portfolios with risk-factor diversification that we then monitor using proprietary tools and research. We each have over twenty years of expertise in risk management and manager evaluation and over ten years as Portfolio Managers for multi-manager solutions. As of May 31, 2016, our team managed approximately US$22 billion in actively managed custom solutions for both institutional and retail clients.

Portfolio Construction

What is your investment process for the Fund?

We take a multi-manager approach to diversifying alpha sources and risk. We allocate the Fund's assets among different underlying styles to create a portfolio that represents a wide range of investment philosophies, companies, industries and market capitalizations. For each underlying style, our portfolio managers have a distinct investment philosophy and process to identify specific securities for purchase or sale based on internal proprietary research. They may employ qualitative and quantitative portfolio management techniques.

In addition to allocating the Fund's assets to the underlying styles, we will implement a derivatives-based overlay strategy to manage the Fund's investment risks. This strategy will principally involve the purchase and sale of put options, call options and futures contracts. Typically, the overlay strategy will hedge market risk to the Fund, but not the risks associated with single investments or groups of investments.

Can you provide more detail on the three components: 1) Equity Strategy, 2) Beta Management, and 3) Tail Risk Mitigation?

Equity Strategy—The underlying long-only equity approach aims to provide capital appreciation by intelligently combining multiple independent potential sources of excess return from Wellington Management's broad array of strategies using proprietary risk management techniques. The approach combines several complementary high-active-share equity strategies, each managed independently in a different style by a distinct Wellington portfolio management team. The approach is structured to have risk characteristics comparable to the broader U.S. equity market over time. Within the Equity Strategy, each of the underlying portfolio managers have complete discretion and responsibility for security selection and portfolio construction decisions within their respective strategies and may have overlapping securities and industries.

Beta Management Strategy—On top of the Equity Strategy, we use futures to reduce the beta profile. The actual beta of the Fund will vary based on the portfolio management teams' view of the market.

Tail Risk Mitigation—As mentioned, highly active long-only managers, like the underlying managers in the Equity Strategy component, have a tendency to gravitate toward stocks with high stock-specific risk. This makes them vulnerable to large drawdowns in extreme safety-oriented market environments, where any form of uncertainty is penalized. One way to help hedge this specific risk is to integrate tail risk mitigation strategies using liquid, exchange-traded equity index options. To reduce the risk of loss due to a sharp decline in the value of the general equities market, the tail risk mitigation strategy purchases long put options and sells deeper "out-of-the-money" put options on the S&P 500 Index. In order to reduce the cost of the put-spread protection, the strategy may also involve the sale of "out-of-the-money" call options on the S&P 500 Index.

There is a cost to these two risk mitigating strategies: the Fund will forgo a portion of upside in order to implement the Beta management and Tail Risk Mitigation strategies.

What derivatives do you use for downside protection (Tail Risk Mitigation)? Are they the same for market volatility (Beta Management)?

The tail risk mitigation strategy uses exchange-traded, liquid options such as options on the S&P 500 Index. The market volatility (beta) management is more explicit in targeting exposures within the Fund using a variety of index futures including the S&P 500, S&P 400, Russell 2000, etc.

How do you use futures to lower market volatility?

Index futures are sold to reduce the overall volatility profile of the Fund. The short futures positions act as a direct market hedge and a bridge to the Fund's tail risk options strategy. The composition of the hedge can be opportunistically adjusted during extreme environments and/or to better match underlying equity exposures of the Fund.

Can you explain the difference between market volatility (Beta Management) and downside protection (Tail Risk Mitigation)?

In seeking the Fund's investment objective, we employ two derivatives-based overlay components to manage the Fund's investment risks and volatility profile: beta management strategy and tail risk mitigation.

Management of the Portfolio Managers

What is your manager selection process?

The manager selection process starts with Wellington Management's broad array of approximately 230 different equity portfolios in order to identify differentiated, high-conviction approaches where we believe each manager has a philosophical advantage. In aggregate, the approach is typically expected to be invested in 4-to-10 different underlying equity sleeves. Importantly, we think strategically about our allocations and employ a 3-to-5-year horizon, but inevitably markets evolve, which presents opportunities and risks. As a growing, successful firm, our many creative investors are continually coming up with new ways of adding value. Therefore, we may add a newer strategy that meets all of our criteria and complements the other strategies already in the Fund. Conversely, if a manager is not meeting our expectations or is no longer fulfilling its role, we will replace them.

In the past, what has the typical manager turnover been per year?

Sleeves can be added or deleted at any given time without advance notification and on average the team historically has made 1-3 manager changes in the portfolio per year.

What do you look for in the managers you choose for the Fund?

We seek to combine complementary investment styles, monitoring the Fund's risk profile and strategically rebalancing the portfolio. In selecting different underlying styles, we consider, among other things, the relative level of an underlying style's "active share," which is the extent to which the underlying style's holdings diverge from its benchmark index.

Who determines the allocation to each manager?

We jointly determine the allocations to the various sleeves. Rebalances occur while taking into consideration trading costs, market restrictions and disruption to the underlying sleeves.

What triggers a manager change?

In making a decision on replacing a manager, we consider that every strategy within this portfolio has a defined role. If for some reason a strategy is not fulfilling this role, we may eliminate it even though performance could be quite good. Conversely, a portfolio may be removed if it fails to meet our performance objectives over an extended period. Overall, there are several reasons for rebalancing or making changes to the approach. This includes, but is not limited to, exploiting extreme disparity in style returns, performance reasons, to invest in new strategies or to manage aggregate portfolio risk.

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The views herein may change based on market and other conditions. Nothing herein is intended to be a forecast of future events, or a recommendation of a specific security or investment strategy. Investment decisions should be made based on an individual's goals, time horizon and risk tolerance. All investing involves risk, including the risk of losing money. Past performance is no guarantee of future results. Stock markets are volatile and can decline significantly in response to adverse issues, including political, regulatory, market or economic developments. Individuals cannot invest directly in an index. Indices are unmanaged and do not reflect the performance of any particular security.

There is no guarantee that the Fund will meet its investment objectives. Investment Adviser: Foresters Investment Management Company, Inc. is the Fund's investment adviser. Wellington Management Company LLP serves as an independent third-party subadviser to the Fund.

The principal risks of investing in the Fund are: Derivatives Risk, Emerging Markets 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.

An investment in the Fund is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency.

For more information about First Investors Funds from Foresters Financial Services, Inc., you may obtain a free prospectus by contacting your Representative, calling 800-423-4026 or visiting our website at foresters.com. You should consider the investment objectives, risks, charges and expenses of the funds carefully before investing. The prospectus contains 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.

Investment Performance

What should investors expect from each component of the strategy and how will the Fund perform when all three components are implemented?

We expect the Fund's overall returns to generally be driven by the performance of the underlying equity strategies. Given the diversified, multi-manager structure, we would expect the underlying portfolio to perform well in a wide range of environments. The underlying portfolio may underperform when aversion to risk has strong reversals (i.e., bear market rallies), and during periods where stocks temporarily stop trading on fundamentals. It has also been more difficult to add value in a market environment characterized by leadership that is either averting extreme risk-seeking or risk-averting.

The approach is not a principal protection strategy and is subject to risk, including the possible loss of money invested. The hedging components are used to dampen the overall volatility of the portfolio and to reduce drawdowns in the event of a market correction.

How would you anticipate this Fund would perform in an up market versus a down market?

There is a cost to these risk mitigating strategies and the Fund will forgo a portion of upside participation. However, by seeking to protect capital in down markets, investors have less ground to make up. In addition, by smoothing the ride, we believe investors are more likely to remain invested for the long term.

In a modest down market, the strategy may be expected to perform in line with an unhedged version of the approach. However, in a severe down market, the tail risk hedging will come into play and the strategy can be expected to decline less than an unhedged version.

Investor Type

What type of investor should consider the Fund?

The Fund is most appropriately used to add diversification to an investment portfolio. The Fund is intended for investors who:

- Are seeking total return,
- Are willing to accept a moderate degree of investment risk, and
- Have a long-term investment horizon and are able to ride out market cycles.

What differentiates the Fund from other hedged equity strategies?

We believe that Wellington Management's active management equity strategies are critical to generating alpha for the Fund. We have over 600 investment professionals who average 17 years of investment experience. Our private partnership ownership structure, single focus on investment management, broad and deep global resources, and collaborative environment lend stability and foster a focus on investment excellence.

We have the ability to choose from over 230 possible strategies. We think of ourselves as risk managers foremost. We create the combined Fund with active share and risk factor diversification in mind. All of these advantages help differentiate this Fund from its competitors.

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