In this issue of Fund Perspectives, we have a presentation by Kent M. Stahl, Portfolio Manager for the Hedged U.S. Equity Opportunities Fund which is subadvised by Wellington Management Company LLP.

First Investors Hedged U.S. Equity Opportunities Fund – Overview

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About Wellington Management Company LLP

Wellington Management Company LLP is the 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. It's 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.

More and more interviews with top economists and other market experts have centered around on how to navigate through recent market volatility during this prolonged period of low interest rates. Many investors are looking for alternatives to traditional or other types of funds that may deliver a better risk-adjusted return over time that protect during down markets. One solution that is picking up momentum is a hedged equity strategy, which combines high active share stock selection with an index option overlay for tail risk mitigation and futures to manage market sensitivity (beta). This solution seeks to provide equity market participation with lower volatility and less severe drawdowns. It also seeks to improve the client experience.

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In this issue of Fund Perspectives, we will discuss what 'active share' is and why it is important. Then we will talk about our risk management view and process. Finally, we will conclude with what our hedged equity product does, how it does it, and the type of investor that could benefit from it.

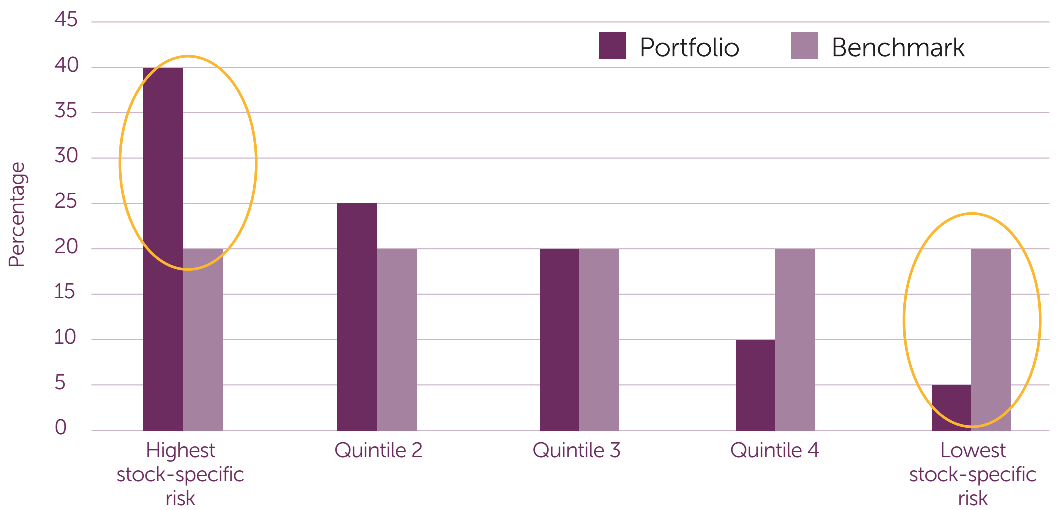
Understanding High Active Share

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 Wellington's belief that the potential to generate alpha increases as managers differentiate their portfolios from their benchmarks. Moreover, it helps guide our efforts to ensure alpha potential remains high when constructing multi-manager portfolios for clients.

High-active-share strategies should be concentrated in stocks with high stock-specific risk. This reflects Wellington's belief that the alpha opportunity is higher in less efficient parts of the market. Stocks with high stock-specific risk are subject to several inefficiencies that highly skilled and well-resourced active managers should be well positioned to exploit. At the same time, stock-specific risk tends to become correlated with market risk in extreme environments, an Achilles' heel of high active share strategies that can result in significant drawdowns.

Why high-active-share managers should have high stock-specific risk scores. Financial theory, academic research, and Wellington's own experience suggest that most positive security selection is generated in stocks with high stock-specific risk. This can be defined as price volatility that is unique to a particular stock and not related to market factors. We measure the exposure of our managers' portfolios to stock-specific risk (i.e., their degree of stock-picking orientation) with a proprietary metric we call SSWAgR (Stock-Specific Weighted-Average Risk). To calculate SSWAgR, we determine the overweight/underweight of a portfolio relative to its benchmark by stock-specific risk quintile. Specifically, we measure the spread between active positions in the top quintile of stocks measured by stock-specific risk and active positions in the bottom quintile of stocks measured by stock-specific risk. For example, if the **benchmark** has 20% of its weight in stocks with the highest stock-specific risk and 20% in the stocks with the lowest stock-specific risk, and an **active strategy** has 40% of its weight in the top quintile and 5% in the bottom quintile, the active strategy's SSWAgR would be +35%. The equity managers we select for this Fund's underlying styles typically have a score of +15% or higher, and many have a score above +30%.

Table 1: Stock-Specific Weighted-Average Risk (SSWAgR) example



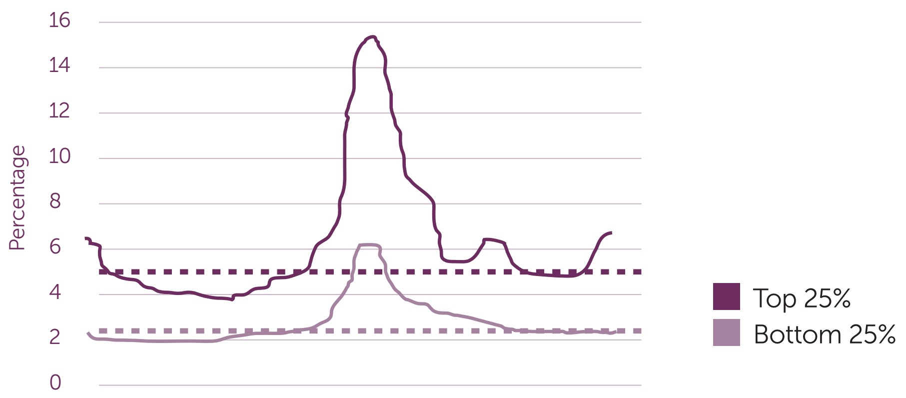
For illustrative purposes only. Not representative of an actual investment. | Source: Wellington Management

We see several possible explanations for high-active-share managers' ability to add value persistently in areas of the market with high stock-specific risk:

- Mispricing of stocks with high stock-specific risk is difficult to quantitatively take advantage of, since, by definition, the mispricing tends to be unique to the individual stocks, making it impossible to hedge risk as required for arbitrage.
- Many stocks fall into this category as a result of an event that affects the issuing company (a management change, environmental disaster, earnings miss, etc.), which can cause forced selling. Buyers may receive a liquidity premium.
- Market extremes can lead to outsized drawdowns for stocks with high stock-specific risk, which can lead to mispricing.
- The wide dispersion in sell-side earnings estimates for these stocks implies a greater level of uncertainty regarding intrinsic value. Large gains can accrue to managers who can "get the fundamentals right."

To illustrate this last point, Table 2 shows the earnings estimate dispersion characteristics for the top quartile and bottom quartile of stock-specific-risk stocks in the Russell 1000 Index. We calculate earnings estimate dispersion by looking at the standard deviation of analyst EPS estimates for the current unreported fiscal year divided by the consensus median EPS estimate for the same period (stated as a percentage). Over the nearly 13 years shown in Table 1, the median variation of the top quartile was generally more than double that of the bottom quartile, with notable skew to the high side during periods of uncertainty, such as 2008 – 2009. We believe this indicates a wider range of views on the intrinsic value of the top-quartile stocks and, for skilled investors with strong analytical resources, potentially fertile ground for alpha opportunities.

Table 2: Earnings estimate dispersion by stock-specific risk
Median analyst dispersion, top vs bottom quartile stock-specific risk using Russell 1000 index constituents, 12-month average smoothing.



Sources: FactSet, Russell, Wellington Management

This theoretical opportunity has historically translated into results. We found that, on average, active managers, as represented by the holdings-based Lipper Active Multi-Cap Core Index generated nearly 2% a year in stocks with above-median stock-specific risk while barely breaking even in stocks with below-median stock-specific risk. This structural alpha premium explains why high stock-specific risk is a fundamental part of the alpha engine in our portfolios. However, while these longer-term results are compelling, highly active strategies with high-stock-specific risk can be subject to significant drawdowns in certain market environments, including those in which stock-specific risk is treated like a beta (e.g., 2011), the opportunity to add alpha is limited because there are relatively few "big winners" in the market (e.g., 2014), or fundamental factors sell off broadly (e.g., 2008). These vulnerabilities can impact portfolios at the worst possible times so we, as risk managers, focus on attempting to hedge this risk while maintaining appropriate alpha objectives.

Financial theory, academic research, and Wellington's own experience suggest that most positive security selection is generated in stocks with high stock-specific risk.

Risk Framework View and Process

The impact of risk factors on returns has increased materially and, given structural changes to markets, is unlikely to decline. In addition, Wellington believes risk factors are more nuanced and numerous than the classic "nine style box" would suggest. Therefore, we have created a detailed proprietary risk-factor framework that we employ in our internal risk analysis and in the management of the First Investors Hedged U.S. Equity Opportunities Fund

Investment decisions should be guided by risk considerations. Our manager allocation process, factor research, risk tools, and discussions with the managers start with a risk view. As a result, we typically have a mandate to pursue alpha with a specific risk profile in mind. Increasingly, the pattern of alpha is as important to clients as the level of alpha.

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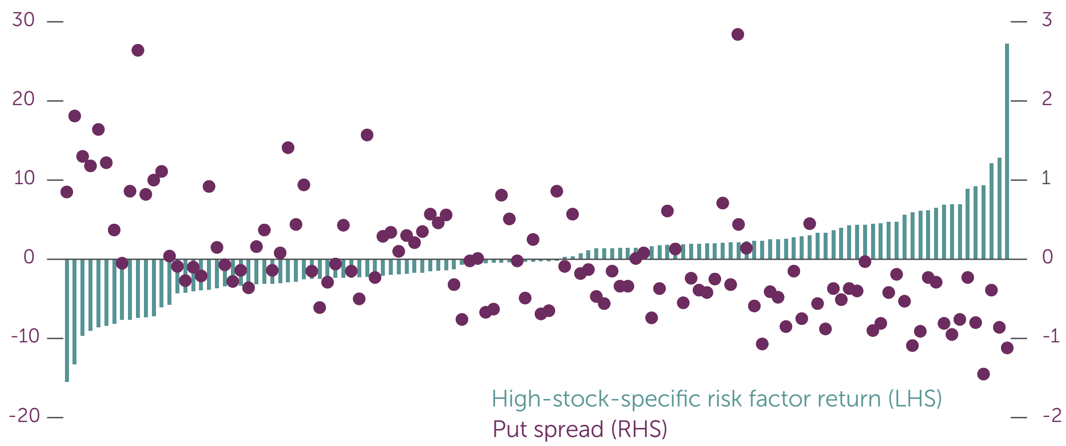
The Role of Tail-Risk Mitigation

As noted, Wellington's high active share stock selection has a tendency to gravitate toward stocks with high stock specific risk. This makes us vulnerable to large drawdowns in extreme safety-oriented market environments, where any form of uncertainty is penalized. One way to mitigate this risk is to is to integrate tail-risk-mitigation strategies using liquid, exchange-traded equity index options. We believe the advantage of these overlay put-spread strategies is that they may provide protection in exactly the environments in which strategies that are long stock-specific risk needs it. We have found there has been a clear inverse relationship between the payoff pattern of a put-protection overlay strategy and the worst months for highly idiosyncratic stocks. That is, the payoffs have exhibited a nonlinear positive performance in the worst environments for stock selection (i.e., stock-specific risk).

To illustrate, in Table 3, we use the return of our high-stock-specific risk factor used in the previous analysis, but this time plot it monthly since January 2005 and sort the return observations from worst to best (blue bars). Then, we overlay the return to a naïve option-based strategy in each of these months (orange dots) to get a sense of the potential impact of tail protection. We see that when stock-specific risk was being rewarded in the market (right side), the option strategy was a net loser in the order of 0% – 1%. This is not a surprise, since the premium spent on protection is less valuable when times are good — expected volatility levels decline and all types of risk (e.g., systematic and stock-specific) are embraced. Furthermore, this result doesn't alter the fact that the option strategy caps the downside, since only the original cost of the protection can be lost. On the left side of the chart, when idiosyncratic risk was being punished (the type of environment in which funds such as the Hedged U.S. Equity Opportunities Fund tend to be the most challenged), the option strategy provided a beneficial return profile. Moreover, the benefit generally grew as the performance of the risk factor worsened — the option strategy did best in the left tail and exhibited nonlinear behavior. These findings are the foundation for the design of the Foresters Hedged U.S. Equity Opportunities Fund.

Table 3: Testing a naive tail-risk management strategy
Hypothetical put-spread strategy vs high-stock-specific-risk factor return, monthly returns, %.



Sources: Wellington Management, S&P

Our Process

Our process consists of three pillars that are all equally important to the success of the Fund, these include: 1) Stock Selection, 2) Beta Management, and 3) Tail Risk Mitigation.

Stock Selection

Our selection process starts with a universe of over 230 possible strategies at Wellington. This is an opportunity to gain access to the "best managers" Wellington has to offer. We next identify high-active-share, long-only managers and combine them using a risk-based allocation framework. This risk-based allocation framework is another layer of our risk management framework. Out of those 230 strategies, 5 to 7 are chosen for this Fund. We manage the beta and drawdown risk separately from stock selection.

Beta Management & Tail Risk Mitigation

In utilizing highly active portfolios, we believe that it is absolutely critical to integrate tail-risk protection strategies as additional insurance for their Achilles' heel — being susceptible to the negative correlation effect (and resulting drawdown risk) in challenged markets. On top of these strategies, we directly manage to the desired beta profile (.70 +/- .15), where cost, efficiency, and transparency are inputs in the process. As a result, we manage beta with a blend of futures rather than by shorting individual stocks. We use futures to manage risk because they are more cost effective and liquid.

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.

Conclusion

Wellington's research, analytics, daily work with portfolio managers, and client relationships provide us with a wealth of information and an awareness of the challenges investors currently face. Our core philosophy is that high conviction alpha engines and a risk-factor framework can help pursue desired outcomes and manage active investment more efficiently. We hope the end result is a smoother ride for our clients that helps them stay invested during the most difficult market environments.

About Foresters Financial

At Foresters Investment Management Company, Inc., registered investment adviser for the First Investors Funds, we have a dedicated team of experienced portfolio managers and investment analysts who employ a top-down, bottom-up approach to investing through rigorous analysis in the disciplined selection of securities for our portfolios.

While no investment is guaranteed, our goal is to produce solid, long-term performance for our clients, while effectively managing risk.

The exceptional combination of broad investment capabilities, asset allocation expertise, conservative risk management and a personal approach to clients, is what gives Foresters Financial its competitive edge.

Foresters Investment Management Company, Inc. also works with outside subadvisers who specialize in specific market sectors. Their expertise, knowledge and experience collectively broadens the scope of the products that are offered by the First Investors family of funds.

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Please note that the Fund's strategy is expected to underperform equity markets during periods of sharply rising equity prices. The principal risks associated with an investment in the Fund are: Derivatives 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. For more information about any First Investors mutual fund from Foresters Financial Services, Inc., you may obtain a free prospectus by contacting your Representative, calling 800 524 2803 (option 2) 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.

All investments involve risk, including possible loss of principal. You can lose money by investing in the Fund. There is no guarantee that the Fund will meet its investment objective. Past performance is no guarantee of future results.

Foresters Financial