Investment perspectives

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Key highlights:

- **First Investors Limited Duration Bond Fund** will now have exposure to high yield; however, the overall credit rating will remain investment grade.
- The Fund's ability to invest in high yield, combined with its short duration profile, position it competitively in the marketplace.
- We continue to monitor our investment theme of global central bank synchronization and what it implies for investors.

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Why consider shorter duration in a rising rate world?

Rajeev Sharma, Director of Fixed Income, recently shared an update on the **First Investors Limited Duration Bond Fund**, thoughts on why investors should consider the Fund and his economic outlook.

Markets have experienced a high level of volatility recently which has largely been confined to equities, although some credit spreads have widened. What impact could this potentially have on fixed income?

Rajeev Sharma (RS): First, it is important to understand that the recent sell-off in stocks was not related directly to negative economic data. On the contrary, on the initial day that the markets dropped, the prime catalyst for stock selling was a very positive U.S. jobs report. In our view, there are fundamentals in the U.S. economy that are encouraging including strong GDP growth, the continuing impact of the tax legislation and solid company earnings. Having said that, the financial markets are becoming increasingly concerned about higher inflation. If inflation moves higher, the Fed may increase the frequency of its rate hikes as a countermeasure. Equity markets are fearful of additional hikes as this could slow down the pace of projected economic growth. Fixed income markets have also started to sell off due to wage growth fueling fears of higher inflation. Volatility is expected as this is an economy in the latter half of the business cycle and such movements are typical at this stage. However, it is important to note that bonds continue to provide a significant diversification benefit for investors relative to owning only stocks.

What has changed about the Fund?

RS: The first change to note is that, as of January 31, the First Investors Limited Duration High Quality Fund is now called the **First Investors Limited Duration Bond Fund**. Second, Muzinich & Co., the subadviser for First Investors Fund For Income and First Investors Floating Rate Fund, has been retained to subadvise a high yield allocation in the First Investors Limited Duration Bond Fund. This high yield sleeve will be managed in the same style as the First Investors Fund For Income. And third, the Fund's management fee was reduced, with the fee before the first breakpoint being reduced to 0.41% of average daily net assets from 0.66%, a reduction of 25 basis points (0.25%). We are excited about what these enhancements potentially offer our investors. From an investment process perspective, our team will survey the high yield market and, depending on market conditions, could add a position anywhere from 0 to 10% in that sector.

Having mentioned the recent Fund changes, can you give us some background on the Fund?

RS: We launched the Fund in May 2014 and it was partially inspired by organic interest as there was a desire for the firm to provide a short duration portfolio solution for our clients. In addition, the product generated a lot of excitement around the firm since it was filling one of the acknowledged gaps in our fund lineup.

Has the Fund's objective changed at all?

RS: No. The objective remains to seek current income consistent with low volatility of principal. We intend on being 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, by prospectus, the Fund is permitted to purchase. What has changed is that by adding a high yield component, the Fund may now see an increase in yield and a potential increase in total return.

How will duration be managed?

RS: We will manage the Fund's duration within the existing parameters. As one example, if our overall high yield allocation includes a 10-year bond and, as a result, the portfolio duration starts to rise, as one option we could sell U.S. Treasury futures or shorten existing positions in investment grade asset classes to offset the bond's impact to the overall duration.

Do you invest in any international securities?

RS: No. The Fund only invests in U.S.-issued securities, although it does, on occasion, invest in foreign companies that have USD-denominated issuances. The Fund's top 10 holdings are shown on the sidebar on the next page.

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First Investors Limited Duration Bond Fund Top Holdings as of 12/31/17

Security	% of Total Net Assets
Fannie Mae, 3.500%, 2025-2029	3.80%
Fannie Mae, 3.000%, 2026-2032	3.60%
Freddie Mac, 3.000%, 2027-2031	3.50%
Royal Bank of Canada, 2.200%, 09/23/2019	2.80%
Morgan Stanley, 5.500%, 07/28/2021	2.70%
Stadshypotek AB, 1.875%, 10/02/2019	2.20%
Bunge Limited Finance Corp., 8.500%, 06/15/2019	2.20%
Toronto-Dominion Bank, 1.950%, 04/02/2020	2.00%
JPMorgan Chase & Co., 4.500%, 01/24/2022	1.70%
O'Reilly Automotive, Inc., 4.625%, 09/15/2021	1.70%
Total	26.10%

This information is solely for illustrative purposes. The portfolio as of the date of this report may or may not be the same as the portfolio on the date this material is used.

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The high yield market usually has a fairly large energy component. Is that likely to impact the Fund's overall corporate sector allocation?

RS: In February 2016, when oil prices fell to about $26 a barrel, many investment-grade energy names were negatively impacted and were downgraded into the high yield category. The high yield market absorbed that influx of debt fairly well. However, a number of issuers continued to experience financial difficulties and eventually defaulted. As a result, the high yield market today is characterized by stronger credit fundamentals, and in turn, is a more efficient market. Default rates are not expected to spike any time soon and the companies appear to be healthier. We anticipate default rates going down in 2018, so we are fairly comfortable about the composition of the high yield market at this time.

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

RS: We think there are a number of reasons to consider investing in a short-term duration fund. To begin with, there is the inherently defensive nature of these types of funds. With the portfolio's 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 are instances when there can be significant swings. When these movements occur in the intermediate- to long-term portion of the curve, they can have a substantial impact across the respective segments. But, in the short end, where the Limited Duration Bond Fund invests, these swings are largely triggered by Fed action and, historically, have been better absorbed than those further out on the curve. Finally, I think 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.

At end of last year, you shared your fixed income perspective heading into 2018. Has your outlook changed since we entered the new year?

RS: No, my fixed income outlook has not changed for 2018. I think investment grade corporates will benefit the most from the Trump tax plan. Overall, as a sector, we are optimistic on high yield, although it could be challenged at points.

The Federal Open Market Committee (FOMC) has a new chair and may look a little different. Any thoughts on this transition?

RS: We anticipate that Jerome Powell, the new Fed chair, is likely to continue along the same path as Janet Yellen. However, there are other seats vacant on the FOMC so, at this point, we don't know the exact composition of the Committee. I would add that this is also true for the European Central Bank since it has open seats as well. This actually leads to what we think will be a big theme for this year, namely, central bank actions around interest rates. If all these institutions start moving in the same direction of higher rates, meaning global synchronization, it may have a negative impact on the fixed income market as rates may move higher at a faster pace.

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