

Undiscovered Earnings Growth

Although First Focus Growth Opportunities is a growth fund, it doesn't limit itself only to the growth industries. Instead, portfolio manager Kurt Spieler spreads the exposure across various industries looking for the companies with above-average growth in each group. The bottom-up research process is complemented by a risk control overlay whose final goal is a portfolio of 50 to 60 growth stocks with low correlations.

Q: What is the investment philosophy of the fund?

A: We are a bottom-up growth manager and we focus on companies with above average growth in earnings within their industry group. So we look for the top growth within each of the various industry segments.

To identify this growth we do company-by-company analysis. We don't have top-down allocations and we don't do sector rotation. The portfolio is constructed industry-by-industry by finding companies that are winning market share either from competitive advantages in technology and distribution or from cost advantages in production. Overall, we're interested in companies with characteristics that enable them to beat their own peer groups.

We are looking at all the industry groups, so even if a company is

not in a growth industry, we may still include it because of its attractive growth prospects within that industry. That means that we may hold Pepsi Bottling Company or United Natural Foods, so we construct the portfolio by focusing on the companies that make sense in each group.

In terms of style, we would consider ourselves Growth-At-Reasonable-Price mid-cap managers. After identifying the companies with higher and consistent growth, we perform the valuation work. That would encompass price to earnings and price to growth ratios, and intrinsic value type of analysis. With this research we determine where the stock should be trading as compared to the current market price.

First Focus Growth Opportunities is a mid-cap fund, so we are focused primarily on companies that are in the \$1 to \$10 billion range.

First Focus Growth Opportunities

Fund Facts

Symbol	FOGRX
Website	www.tributarycapital.com
Address	First National Bank of Omaha One First National Center, Trust Division, 1620 Dodge Street Omaha, NE 68012
Tel. No.	800-662-4203
Inception	04/01/1998

Portfolio

Total Net Assets *	\$ 67.7
Avg Mkt Cap (\$ Weighted) *	\$ 11,200
Average Price/Earnings Ratio	25.94x
Average Price/Book Ratio	4.24x
Turnover Ratio	47 %

Investment Information

New Investment	Open
Min Initial Investment	\$ 1,000
Min Subsequent Investment	\$ 50
Min Initial IRA Investment	N/A

Risk (Against S&P 500 - 3 Years)

Alpha	-0.21
Beta	1.38
R-Squared	0.73
Ann Std Deviation	12.31
Sharpe Ratio	0.93

Returns vs. Russell Mid Cap Growth Index

	FOGRX	Index
1 Year (Cum.)	9.39 %	7.03 %
3 Year (Ann.)	14.47 %	14.53 %
5 Year (Ann.)	11.28 %	12.01 %

Returns vs. S&P 500

	FOGRX	Index
1 Year (Cum.)	9.39 %	10.79 %
3 Year (Ann.)	14.47 %	12.30 %
5 Year (Ann.)	11.28 %	6.97 %

Fees and Expenses

Max Sales Charge - Front	0.00 %
Max Sales Charge - Deferred	0.00 %
Max Redemption Fee	0.00 %
Total Expense Ratio	1.24 %

Portfolio Manager

Kurt Spieler	4/1/1998
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* millions

Data through: 8/31/2006

Source: Company Documents; Lipper



But if they do appreciate above \$10 billion, we are likely to continue holding them for a while, so there may be stocks in the portfolio with market cap of above \$10 billion.

Q: *How do you measure the earnings growth? Are you looking at historic or future earnings?*

A: We are looking at companies with proven track record of five years of financial information, so we do spend some time with historical earnings. But we look at their quality in terms of the drivers of both the earnings and the cash flow.

In terms of future earnings, we take a look at Wall Street brokerage consensus numbers and then form an opinion on where the earnings are likely to be. In other words, we want companies that will produce future earnings ahead of consensus estimates. But the estimates are more of a starting point from which we then do our own fundamental research.

Q: *Would you describe your research process? How do you generate ideas and turn them into holdings?*

A: We have had this strategy in place for ten years and we certainly believe in the continuity of how we analyze companies. Our research process is a team-based effort. We have eight individuals with industry and stock responsibilities, focused on finding the attractive-growth companies. On the front end, we do screening on an industry-by-industry basis. We have a set of financial criteria, including growth and valuation-based measures, which we are evaluating within each industry group.

We use the screening to narrow down the list of ideas that we want to do more fundamental work on.

In terms of idea generation, someone will take a look at an industry and decide to analyze two or three companies. Then we'll talk with brokerage analysts and with the company itself to get a better picture of where growth is coming from and what area the company is involved with.

If we decide to make a 'buy' recommendation on a new name, we do an internal write-up, typically three to four pages, where we talk about the business and the catalysts



for the growth prospects. We also analyze the inherent risks with the strategy and how this idea complements our holdings. Every team member has the opportunity to ask questions and to point holes in the 'buy' recommendation, so we try to make sure that we have a thorough understanding of the company.

Q: *As part of your fundamental research effort, do you visit the companies and talk to the management teams?*

A: We talk to managements occasionally, especially for companies that have been in the portfolio

for a while, but that's not a crucial part of the process. We also meet managements in our office or at various industry conferences and we use this as just one source of information. Sometimes you can get tidbits about the industry and where the company is positioned, but it's not a critical part of our process.

Q: *What makes your portfolio construction unique?*

A: We are looking for industry leaders and market share gainers on the growth side, but when constructing the portfolio, we want to have exposure in many different industry groups and areas. We look for companies that have low correlations with the portfolio to avoid the risk of having too much exposure to one particular market segment. So we are building a portfolio of 50 to 60 stocks that have fairly low correlations. The unique part is that even though we are a growth manager, we do control risks when constructing the portfolio company by company.

Q: *Can you give us an example of how an idea turned into a research item and then into a holding?*

A: Anixter International is a fairly recent addition to the portfolio. First, the company screened out well on the front end. It had solid growth historically as well as expected earnings growth. They have been exceeding their estimates on a quarterly basis. When the idea screened out, it was faster than its industry, it was cheap, and its P/E ratio was 14. It had a solid PEG ratio and return on capital, and a good balance sheet. They had

been buying back shares and paying out special dividends as well.

The company is a global distributor of communication infrastructure products, especially within specialty wires and cables. They sell to cable companies and directly to corporations looking for communication infrastructure within their office buildings. Fiber optic, copper data cable and peripheral products are the areas where they generate most of their revenues. The communications part is probably about 56% of their last quarter revenues. This is one of the areas where we see continuous spending as people are still talking about faster speed, DSL versus cable, etc. Anixter has the right in the mix of the products and strong market shares in both Europe and the US. They also have a strong management team and they continue to gain market share.

The company met our screening criteria and our qualitative characteristics. The analysts put a report together, and then we met as a group to discuss the risks associated with a slowdown in communication spending. It was a fairly unique area within the portfolio as we do not have another company in the same area of the marketplace, so it was a good complimentary addition.

Q: *Could you give us an example of ideas that you found in some other way?*

A: I think that East West Bancorp fits that universe. What we liked about that company was its market positioning. It is the largest Chinese American bank with most of its branches based in California, so it is a unique niche player. That's the other way of generating ideas;

looking not only for market share leaders but also for companies that can own the market.

They have been generating above-average growth in both deposits and assets partially because the Chinese-American community likes to deal with other Chinese

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about

Kurt Spieler

**Kurt Spieler, CFA
Portfolio Manager**

Kurt has over seventeen years of investment experience. This experience includes sixteen years with the Principle Financial Group in Des Moines, where his role expanded from a securities analyst position, to managing a highly successful emerging market portfolio, to ultimately being named the Head of International Equities for the Principal with responsibilities for all global offerings. Kurt earned his Bachelor of Business Administration - Accounting degree from the Iowa State University and Masters of Business Administration from Drake University. He achieved the designation of Chartered Financial Analyst in 1994 and is a member of the CFA Society of Colorado.

Americans and also because of their exposure abroad. Many people have families both in China and California and the bank allows direct transfers and deposits, so it has a very strong niche.

We also liked the stock because we were looking for the theme of banks with low exposure to residential mortgage operations. East West Bancorp is primarily a commercial bank with exposure on the loan side of commercial loans. We wanted to avoid the banks that are heavily residential as they are potentially going to run into more credit problems that would flatten the yield curve. So we decided that they were in a good niche and had above-average growth in assets. We expected the company to continue to grow faster than other banks, so we believed the share price would continue to go up.

Q: *How do you approach the risk control aspect of running a fund?*

A: We control risks by looking at the overall volatility of the portfolio. We know what's in the Russell Mid Cap index, but it is not a driver of our process. So we look at how much risk or how much volatility we have within the overall portfolio and we try to keep that to a minimum. We want companies that are growing but we are not momentum investors. We look for solid fundamentals and good companies growing faster than their peer groups and we reduce the volatility by paying a cheap price for those companies. If we are paying the right multiple per unit of growth, that helps to control our downside risk. ■

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