Fund Spotlight

First Investors Funds

Select Growth

John Brim

Portfolio Manager,
Select Growth Fund

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John Brim joined Smith Asset Management Group in 1998 as a Portfolio Manager and has managed the First Investors Select Growth Fund since its inception in 2000. Prior to joining Smith, Brim was manager of institutional investment at Deloitte and Touche (1997-1998). Before that, he worked as a senior client manager at NationsBank (now Bank of America), from 1990 to 1997.

Selecting Companies With Undiscovered Growth Potential

Growth fund managers, by definition, seek to invest in companies that are expected to deliver above-average earnings growth compared to the broader market. However, it's common for growth funds to buy companies that already have high-growth expectations—and thus have already priced in those expectations.

The First Investors Select Growth Fund takes a more qualitative, research-driven approach to find companies with strong earnings potential that other growth fund managers likely have overlooked. Portfolio Manager John Brim, along with his team of specialized equity growth analysts at Smith Asset Management Group, do deep-dive research on companies to identify those that seem poised to experience earnings growth well above current market expectations. "We believe in earning the growth, not paying for it," Brim says.

Brim, who has overseen portfolio management for the Fund since its inception in 2007, uses a systematic approach to identify companies that fit the fund's criteria. His team first assesses a company's liquidity, stock price volatility and valuation. They want to know, for example, whether a company is reasonably priced based on its experienced growth relative to its peer group and the company's history. They also look at cash flow: How good is the management team at efficiently converting the company's assets into cash and do they see the cash stream improving over time? "We're not as focused as some managers on a single-point-in-time view of quality," Brim says. "We're very focused on whether we see potential for improvement in cash conversion and asset efficiency."

Once a company passes the initial screening, Brim and his team focus on its future earnings potential to determine whether they think its earnings growth can outperform its peers and market expectations. They may expect a company to outperform because it has a very skilled and experienced management team, because it sells a market-changing technology, or because of an industry-wide phenomenon. "But more often than not we're really keying in on a very company-specific attribute," he says.

For example, the Fund has invested in companies that were taking an innovative approach to scaling up their business by reinvesting their current earnings and cash flow in a new and growing line of business that had yet to take off. "We felt that the marketplace hadn't yet seen the potential" of that new business, and the Fund benefited by investing in that company before the company's stock price rose significantly.

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Foresters Financial

Smith Asset Management Group is a SEC-registered investment adviser and an unaffiliated subadviser for the First Investors Select Growth Fund.

Select Growth Fund seeks long-term growth of capital, typically by investing in approximately 40-45 common stocks that the Fund's subadviser believes offers the best potential for earnings growth with the lowest risk of negative earnings surprises.

This Fund can be used as a core holding for your investment portfolio. It may be appropriate for investors seeking growth of capital who are willing to accept a moderate degree of stock investment risk, and have a long-term investment horizon.

When selecting investments, the Fund's seasoned investment management team takes a rigorous, three-step approach. First, it screens out those stocks using a number of criteria including those that are the most volatile or are more likely to underperform the market. The stocks that pass the initial screening are evaluated to identify those that have the highest probability of producing an earnings growth rate that exceeds investor expectations. From that pool of stocks, the team uses fundamental analysis to choose approximately 40-45 stocks that are believed to have the best growth and risk characteristics.

For more complete information on any First Investors fund from Foresters Financial Services, Inc., you may obtain a free prospectus by contacting your Representative, calling 800 423 4026, or visiting our website at forestersfinancial.com. You should consider the investment objectives, risks, fees or charges, and expenses of the fund carefully before investing. The prospectus contains this and other information about the fund, and should be read carefully before you invest or send money. An investment in a fund is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency.

The market risk associated with small- and mid-cap stocks is generally greater than that associated with large-cap stocks because such stocks tend to experience sharper price fluctuations than large-cap stocks. The additional volatility associated with small- to mid-cap stocks is attributable to a number of factors, including the fact that the earnings of small- to mid-size companies tend to be less predictable than those of larger, more established companies. Small- to mid-cap stocks are also not as broadly traded as stocks of companies with larger market caps. At times, it may be difficult for the Fund to sell small- to mid-cap stocks at reasonable prices.

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The Fund overall has seen strong performance in recent years, ranking near the top of its peer group. That's thanks in part, Brim says, to its adherence to the strategy of only investing in companies in which they think earnings growth will beat expectations. This strategy performs especially well, he says, when growth expectations for the market overall are low—because they can uncover the growth stars in a period of slow growth. Of course, past performance does not guarantee future results.

"That's where we differ from a lot of growth managers," he says. "We're a quality growth manager; we want to buy companies that have good upside potential. We're looking for undiscovered growth."

His team has passed on certain investments because, even though a company's financials may look strong, high earnings expectations have already been priced into its shares. For this reason, the Fund does not invest in some of the stock market "darlings" that already carry very high prices. Moreover, Brim says the Fund will sell an investment once the market's earnings expectations catch up to reality—even if growth still appears strong.

The Fund invests across a diverse range of sectors, though it tends to underweight sectors such as energy, materials, and financials in which earnings are volatile and sensitive to external factors—such as commodity prices or interest rates—that make it difficult to accurately assess future earnings. It also looks to only invest in sectors and companies where management teams are acutely focused on producing shareholder value, Brim says: "We want the management team to get out of bed every day and think, how can we return more value to our shareholders?"

The Fund generally holds about 40 large and medium-sized stocks and no single stock accounts for more than 5 percent of the holdings, a decision that "is intended to provide a more stable return for investors," Brim says. The companies have their operations based in the United States. As of February 2015, the Fund had $423.0 million in assets.

The Fund appeals to investors, Brim says, who are looking for capital appreciation and a sustainable-growth approach, but are willing to accept a moderate degree of investment risk. Because the fund is diversified across many sectors, it may provide more stable returns than growth funds seeking hyper-growth by investing in fewer companies with more risk. "We're more concerned about generating consistent excess returns versus getting one homerun at any price."

You can lose money by investing in the Fund. There is no guarantee that the Fund will meet its investment objectives. The Fund is intended for investors who: are seeking growth of capital; 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.

Here are the principal risks of investing in the Fund:

Growth Stock Risk; Limited Holdings Risk; Market Risk; Mid-Size and Small-Size Company Risk; Security Selection 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.

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