



FOUNDERS GROWTH FUND*

Fund objective:

Seeks long-term growth of capital by investing in a diversified portfolio of well-established, high-quality growth companies from both the medium- and large-capitalization markets. These companies tend to have strong performance records, solid market positions, and reasonable financial strength. The fund may invest up to 30% of its total assets in foreign securities. The Founders Growth Fund assets were approximately \$2.7 billion as of March 31, 1999.

Fund management

Scott A. Chapman, vice president of Investments and director of Research, is a Chartered Financial Analyst who joined Founders in December 1998 as co-lead portfolio manager. Mr. Chapman has also served as a portfolio manager for The Dreyfus Corporation since February 1999. Prior to joining Founders, he was vice president and director of Growth

Strategy (1993-1998) and a securities research analyst (1991-1993) for HighMark Capital Management, Inc., a subsidiary of Union BanCal Corporation. A graduate of Santa Clara University, Mr. Chapman received an MBA from Golden Gate University.

Thomas M. Arrington, vice president of Investments, is a Chartered Financial Analyst who joined Founders in December 1998 as co-lead portfolio manager for Founders Growth Fund. Mr. Arrington has also served as a portfolio manager for The Dreyfus Corporation since March 1999. Prior to joining Founders, he was vice president and director of income equity strategy (1994-1998), a vice president and director of income and growth strategy (1993-1994), and a securities research analyst (1991-1994) for HighMark Capital Management, Inc., a subsidiary of Union BanCal Corporation. A graduate of the University of California, Los Angeles, Mr. Arrington received an MBA from San Francisco State University.

Q: What is your investment strategy and do you use a top-down or bottom-up approach when building your portfolio?

A. Founders Growth Fund follows a consistent investment discipline that is both quantitative and qualitative based on classic investment principles. We use a bottom-up process and a set of 10 qualitative criteria to evaluate every investment candidate. The result is a diversified portfolio of companies which we believe have enduring value and sustainable growth. We also view stocks as a share of a business. We base our investments on our own research. We seek those opportunities where the market price is below what we believe is the company's intrinsic value. Our objective is to realize the capital appreciation from both the market's eventual recognition of this pricing gap and the company's increasing worth from higher earnings over time.

Q: What economic or financial indicators do you watch?

A. The types of companies we seek have been tested and proven in different economic environments. We believe there are good companies to invest in during almost any economic condition, if you're willing to do hands-on research. Growth stocks have historically outperformed in a steady-state economy or in an economic slowdown, where consistent, double-digit growth rates are favored by investors.

Q: How do you select investments for the Fund?

A. Quality and consistency are our watchwords. While selective turn-around opportunities of blue chip companies or emerging blue chip-quality companies may be considered for capital appreciation, over 90% of the Fund is focused on consistent earnings growth companies. We maintain approximately 100 high-quality stocks in the Fund to ensure adequate diversification. Consistent with the objectives of our Growth strategy we make conscious over-

weight bets where deserved but we do not "bet the house" on any industry or make market timing bets. Part of our research focuses on our 10-step qualitative checklist:

- Demonstrated, consistent, and above-average earnings growth.
- Strong and growing brand identities that evoke trust, quality and reliability.
- Recurring revenue with a favorable outlook.
- Proprietary products or strong franchises with increasing barriers to entry.
- Opportunities to capitalize on their industry's inefficiencies.
- Leadership roles in exploiting broad societal trends.
- Attractive returns on investment and free cash flow.
- Seasoned, respected, owner-oriented management team.
- Management with a willingness to buy back shares.
- Current prices at or below intrinsic value.

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Q: What computer-assisted trading disciplines do you use?

A. We do not use computer-assisted models for trading purposes, but we do use computer screens to assist us in finding and researching companies that meet our quantitative requirements.

Q: How do you allocate assets in the Fund? What is the current mix?

A. We place the largest weights in companies in which we have the greatest conviction and that are most attractively priced. Currently our top 10 holdings comprise 30.2% of the Fund. Our category classification mix for the quarter ending 3/31/99 was 96.81% in Domestic Common Stock, 0.79% in Foreign Common Stock, 2.41% in Cash

Equivalents. Portfolio composition and holdings are subject to change.

Q: What do you expect from your particular markets in the near future?

A. Large-cap growth stocks have done well over the last several years and the valuation differential between growth and value stocks appears to be stretched. Still, we find our large-cap stocks attractive because of their consistent earnings growth, which should do well given our forecast for moderate U.S. economic growth. The types of companies we invest in have a higher degree of predictability and consistency that allows us to project their earnings five years forward with a high comfort level.

For more information

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