

# ALGER

Inspired by Change, Driven by Growth.

Summer 2023

## Capital Markets: Observations and Insights

A Small Opportunity?



Alger is a signatory to the PRI and carbon neutral.

# A Small Opportunity?

Over the past few quarters, we have made the case for a slowing economy based on the lagged impact of monetary tightening as well as moderating fiscal spending. At the same time, we noted that we were bullish on growth stocks given our view that “industries or technologies early in their lifecycle are less susceptible to economic volatility because of their potential for market share gains.”\* It appears the market has begun to come to a similar view as large technology companies reflect the enthusiasm of new innovations, such as artificial intelligence, while more economically sensitive areas of the market such as transportation, banks, and retail have struggled.

However, the enthusiasm for growth and innovation has not been widely embraced across all equities. Notably, small cap stock performance has lagged significantly across growth and value styles. In fact, small cap underperformance on a rolling five-year basis is now at levels not seen in over two decades. The last time small cap stocks trailed by such an extent they went on to meaningfully outperform large cap stocks over the following several years.

For long-term investors, we believe there may be opportunity in small cap growth stocks as less publicized innovative products and services contribute to strong fundamental progression, under the radar of the financial media. In our view, many of the best opportunities for long-term wealth creation exist in this area of the market and may be hiding in plain sight.



A handwritten signature in black ink, appearing to read "Daniel C. Chung".

**Daniel C. Chung, CFA**  
Chief Executive Officer  
Chief Investment Officer



A handwritten signature in black ink, appearing to read "Brad Neuman".

**Brad Neuman, CFA**  
Senior Vice President  
Director of Market Strategy

\*Alger, Capital Markets: Observations and Insights, Winter 2023.

Investing in innovation is not without risk and there is no guarantee that investments in research and development will result in a company gaining market share or achieving enhanced revenue. Past performance is not indicative of future results.

# Key Observations and Themes

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## A Small Opportunity

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Small cap stock performance has lagged significantly. For long-term investors, we believe there may be opportunity in small cap growth stocks.

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The lagged impact of tightening monetary policy is working to slow the economy, in our view. We explore money supply, leading indicators, bank lending, debt levels, and more.

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Although the short-term macroeconomic environment may be challenging, the long-term future of the economy and investing is very bright, in our view.

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Secular investment trends may transcend economic volatility, politics and central bank actions, producing compelling investment opportunities over the long term.

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## Style Wars

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Powerful structural forces may keep the long-term trend of growth outperformance intact, in our view.

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## Making Better Decisions

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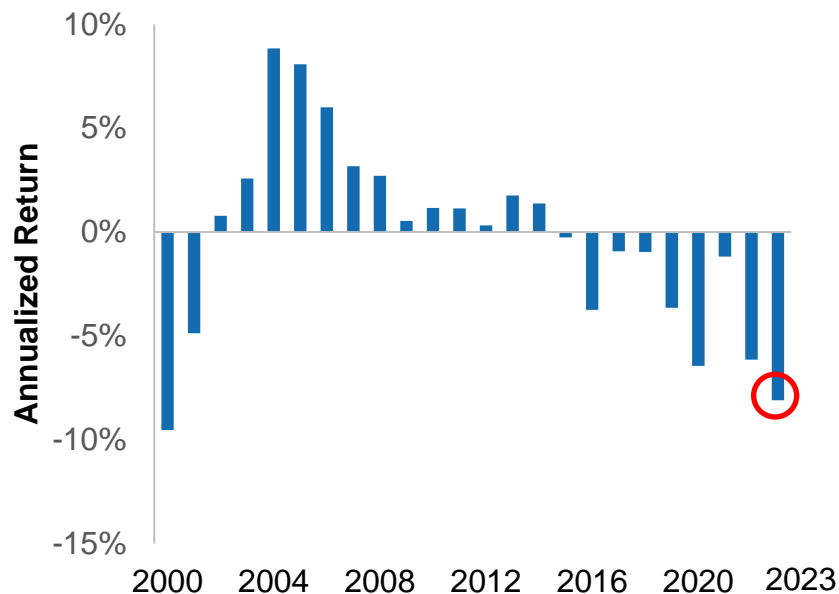
We provide tools that we believe can be used for better decision making in both investing and life.

# I

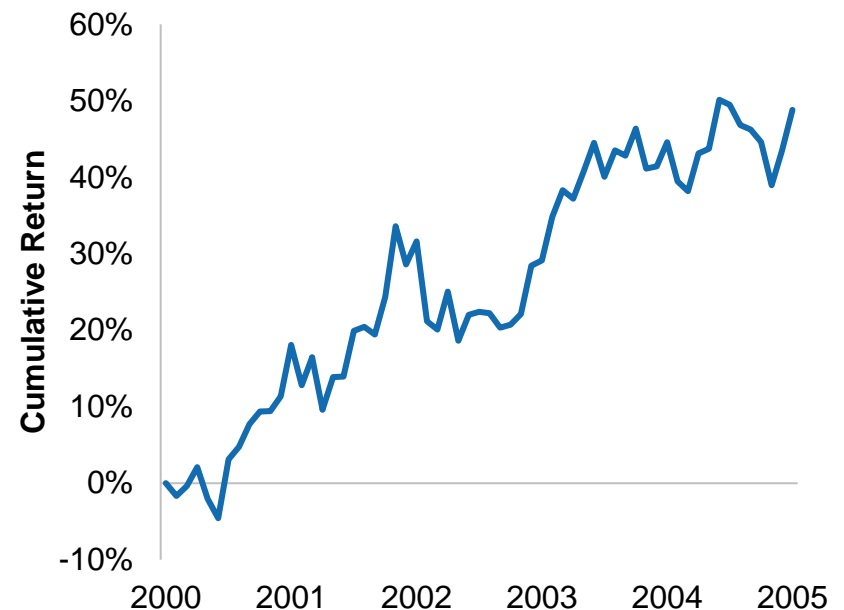
## A Small Opportunity? Performance Catch-up?

- Small cap performance has lagged large cap the most in over two decades
- The last time small caps lagged this much, they went on to significantly outperform large caps over the following several years

### Small Less Large Cap Five-Year Rolling Returns



### Small Cap Historical Return Relative to Large Cap



Source: FactSet. Large cap stocks represented by the S&P 500 index and small cap stocks represented by the Russell 2000 index. Rolling returns represent the average annualized return of an investment for a given time frame. In this case, the previous five years. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

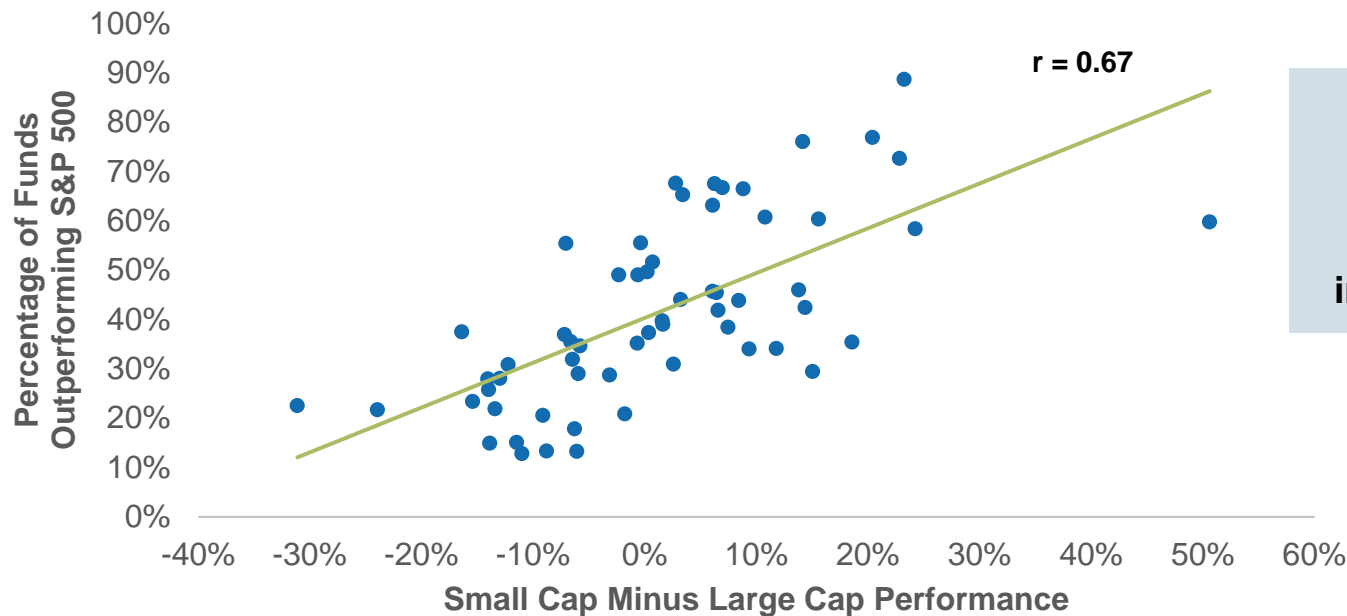
# A Small Opportunity?

## Active Management to Benefit?

- Active managers have historically performed better when smaller cap companies have outperformed large cap companies

Each dot on the chart shows the relationship between the percentage of funds outperforming the S&P 500 versus small cap performance relative to large cap performance

Small Cap vs. Active Management Outperformance



**If small cap stocks outperform, active managers' relative performance may improve, in our view**

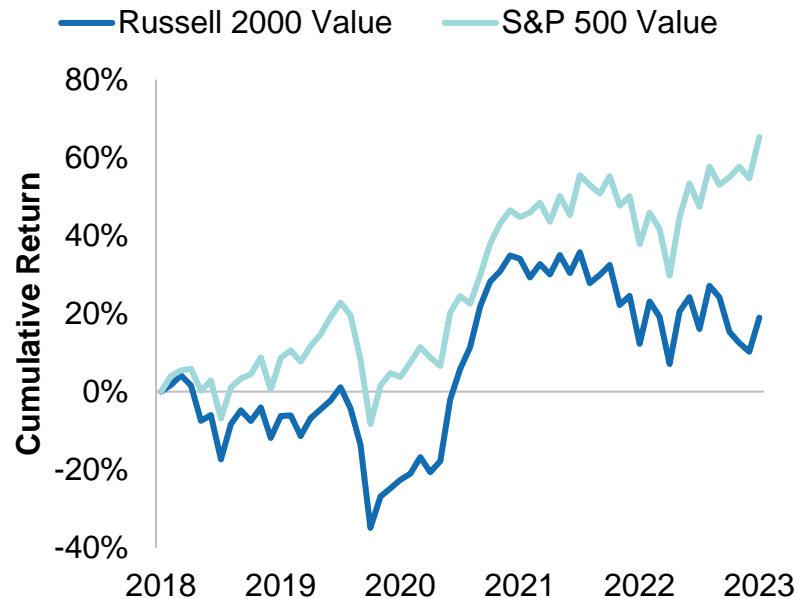
Source: For Percentage of Funds Outperforming S&P 500 is Morningstar Direct for all U.S. equity funds (1963-1999) and "SPIVA® U.S. Scorecard," S&P Dow Jones Indices Research for U.S. large capitalization equity funds (2000-2022); for Small Cap Minus Large Cap Performance is Small Minus Big Fama/French Factor (1963-1979) and Russell 2000 minus S&P 500 (1980-2022). Correlation ( $r$ ) is a statistical measure that shows how two variables are related to each other. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

# A Small Opportunity?

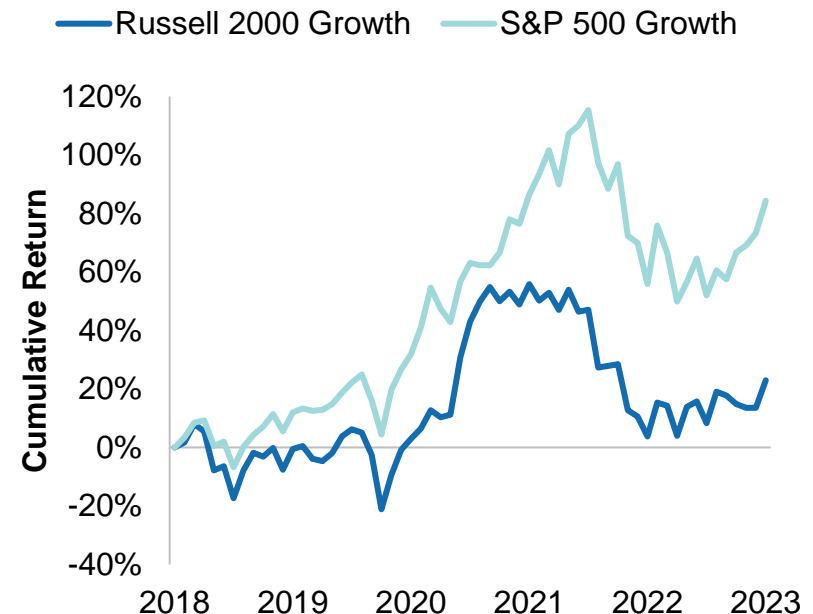
## Performance Gap Across Styles

- Small cap stocks have underperformed in both value and growth styles over the past five years

### Small Value vs. Large Value



### Small Growth vs. Large Growth



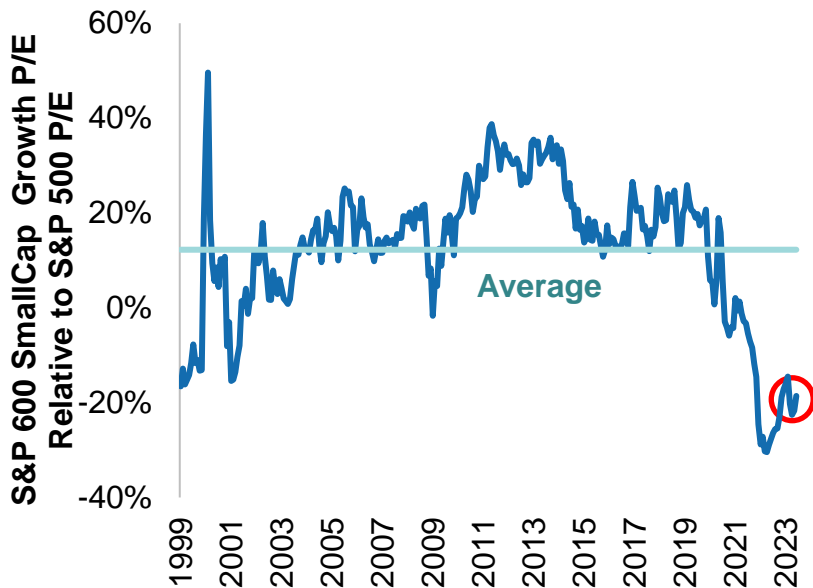
Source: FactSet. Small Value stocks represented by the Russell 2000 Value Index and Large Value stocks represented by the S&P 500 Value Index. Small Growth stocks represented by the Russell 2000 Growth Index and Large Growth stocks represented by the S&P 500 Growth Index. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

# A Small Opportunity?

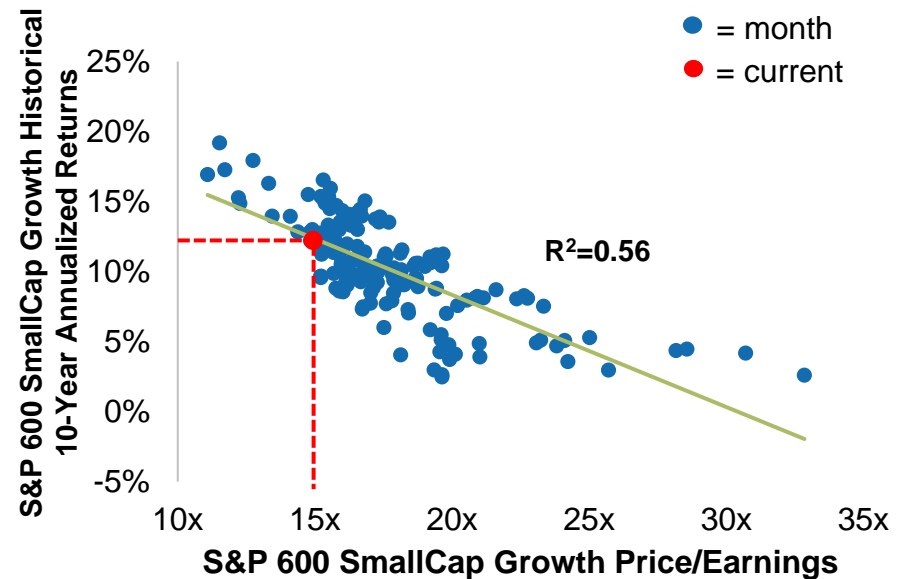
## Discounted Valuations

- Small cap growth stocks are trading at historically inexpensive valuations relative to the broader stock market
- While past performance is not necessarily indicative of future results, similar valuations have historically led to strong returns

### Small Growth Valuation Relative to History



### Valuations & Historical Returns



Source: FactSet. Each dot represents the P/E during that month and the returns generated over the subsequent 10 years. The starting P/E ratio is the price divided by the next 12-month earnings per share estimate at the start of each 10-year period measured. Monthly data through June 2023 and beginning in September 1998. R-squared is a statistical measure used to analyze how differences in one variable can be explained by the difference in a second variable. In the context of the chart, it measures the proportion of the variability of the dependent variable (subsequent 10-year annualized return) that can be explained by the independent variable (price-to-earnings). An R-squared value of 1.00 means that the independent variable (price-to-earnings) perfectly explains the variability in the dependent variable (subsequent 10-year annualized return), while a value of 0.00 means that the independent variable cannot explain any of the variability. In the chart, the R-squared of 0.56 means that 56% of the variability in subsequent 10-year annualized returns can be explained by the price-to-earnings multiple. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

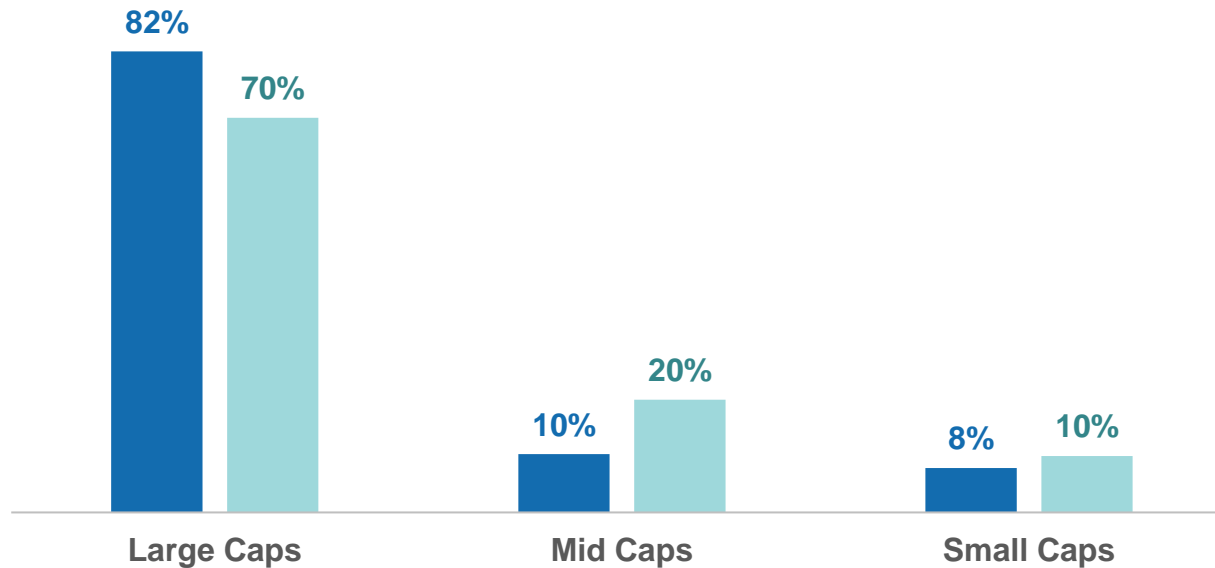
# I

## A Small Opportunity? Under-Appreciated?

- Investors have been historically under allocated to small and mid cap stocks

### Investor Weighting vs. Market Weighting

■ Investor Weighting   ■ Market Weighting



**Investors  
weighting in  
small and mid  
caps is 40%  
below the market**

Source: Morningstar, May 2023. Data based on U.S. Morningstar categories for both active and passive across mutual funds and ETFs.



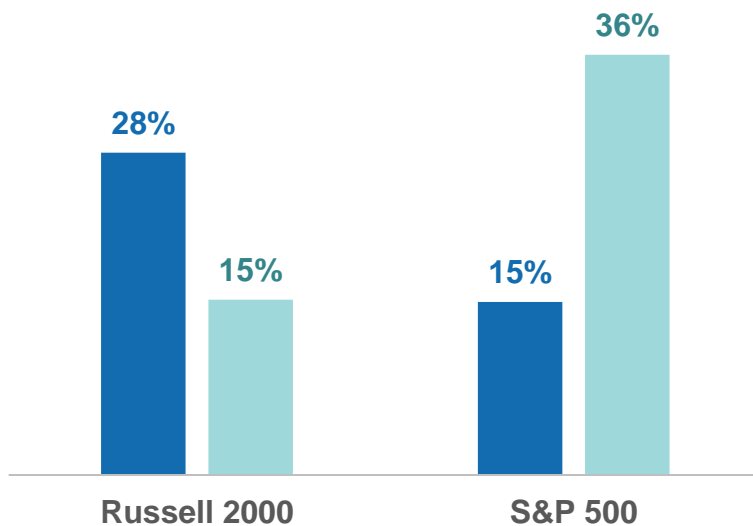
# I

## A Small Opportunity? Passive Problems

- Small and large cap indices are mismatched, creating potentially unintended differences in characteristics and end-markets
  - Russell 2000 tilts toward value and S&P 500 to growth

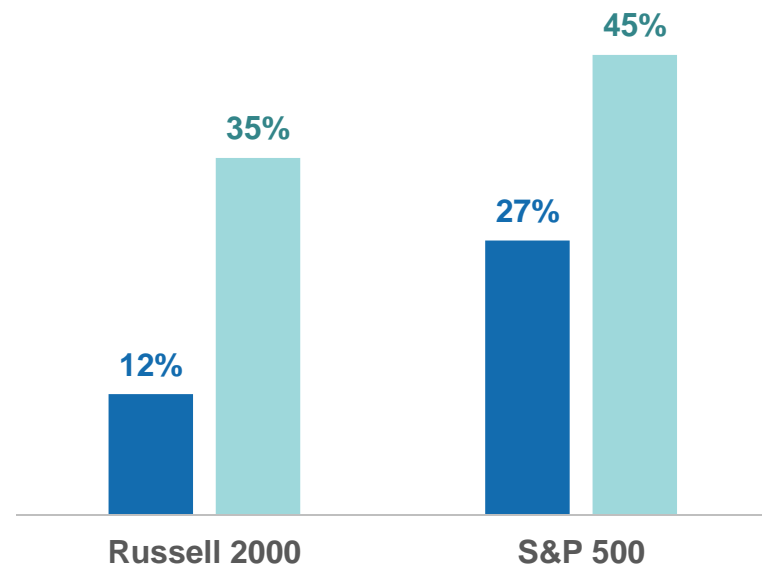
### Sector Weightings

- Industrials, Energy, Materials
- Tech & Communication Services



### Profitability

- ROE
- Gross Margin



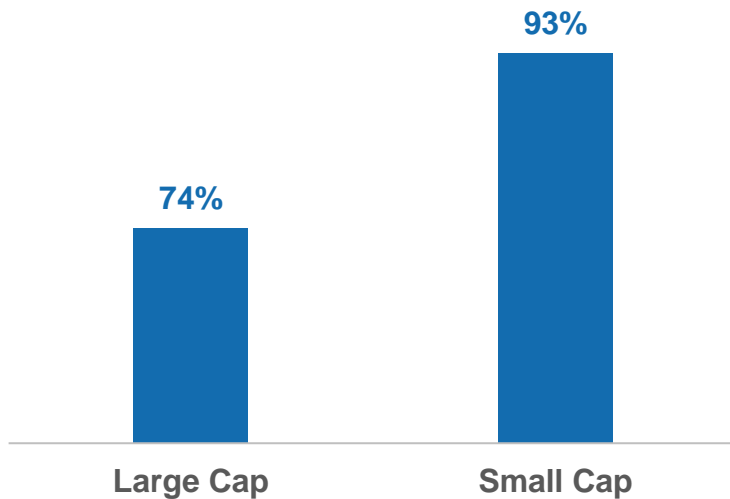
Source: FactSet June 2023. Return on Equity (ROE) is calculated by dividing a company's net income by shareholders' equity. Gross margin is the amount of money retained by a company after incurring costs associated with producing the goods it sells or the services it provides to end customers. ROE and gross margin are weighted median calculations.

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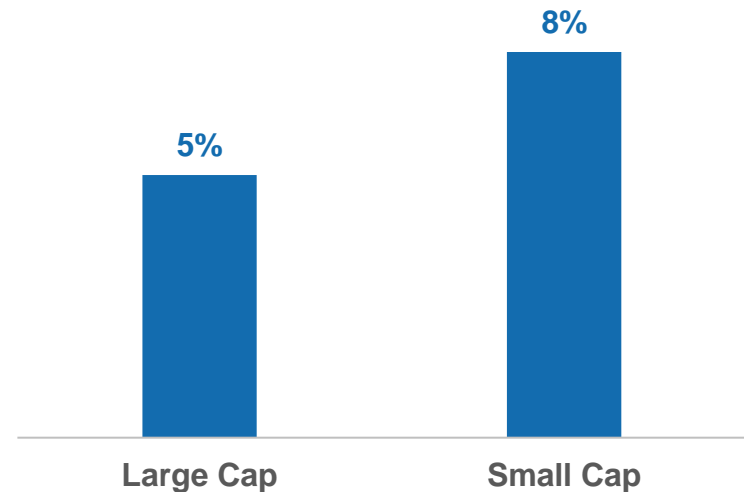
## A Small Opportunity? Get Active

- It may be easier to create differentiated portfolios relative to the benchmark in small caps due to a more expansive opportunity set versus large caps
  - Potentially making it easier to generate differentiated results, in our view

### Small Cap Managers: Higher Active Share



### Small Cap Managers: Higher Tracking Error



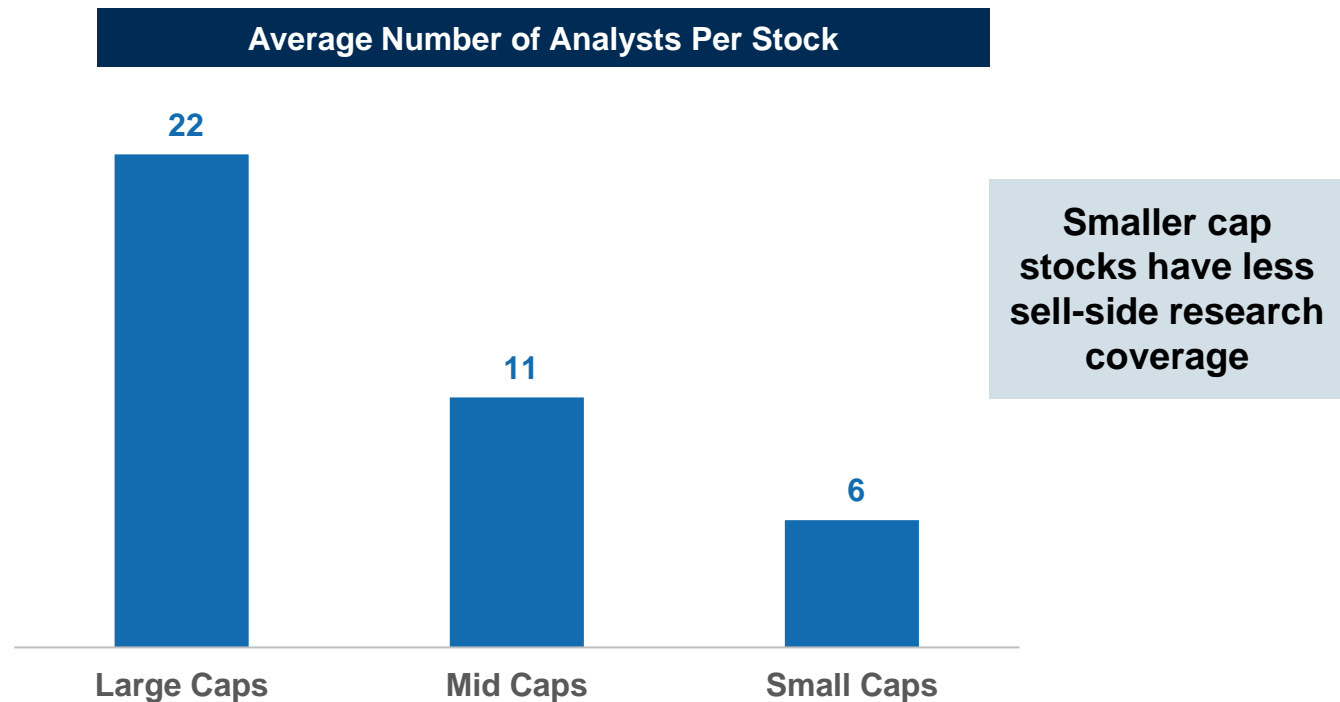
Source: eVestment based on median data for year-end 2022; includes core, growth, and value of large cap equity and small cap equity. Active share is a measure of the percentage of stock holdings in a portfolio that differs from the benchmark index. Tracking error is the standard deviation in excess returns.

# I

## A Small Opportunity?

### Taking Advantage of Inefficiencies

- Far fewer research analysts follow each stock, on average, in small and mid caps relative to large caps
  - Potentially making it easier to have a differentiated view on sales, earnings, cash flows and ultimately shareholder value

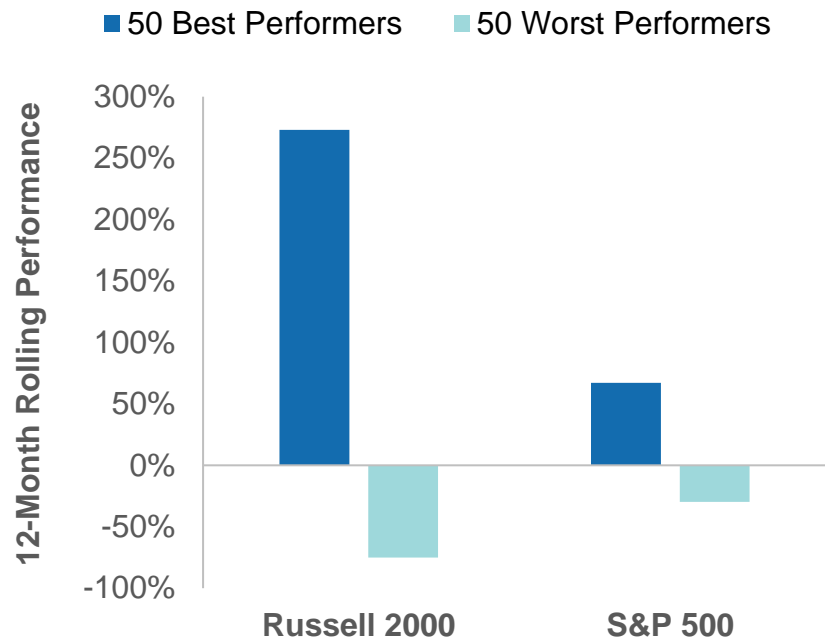


Source: FactSet. Data as of June 2023. Large, mid and small cap indices are S&P 500, S&P MidCap 400, and S&P SmallCap 600, respectively.

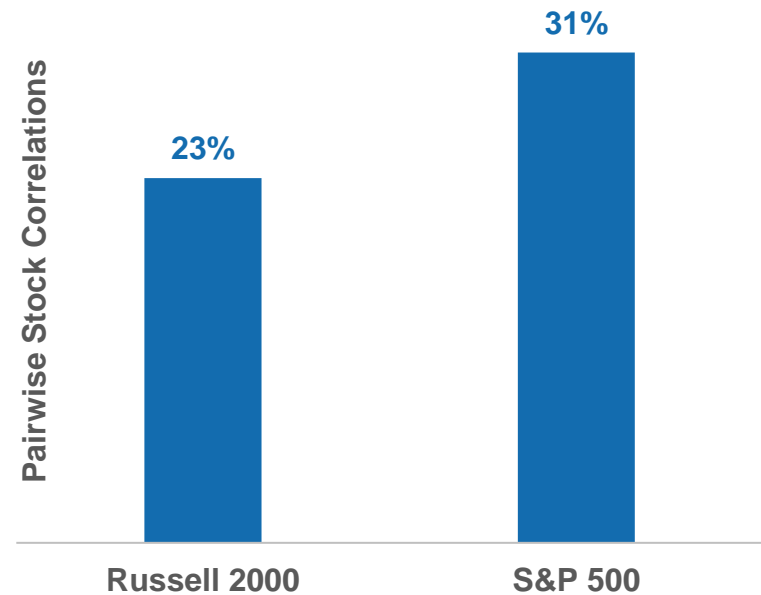
## A Small Opportunity? More Alpha?

- Higher performance divergence may allow active managers to capture more alpha
- Lower stock correlations may mean less macro influences and more company specific drivers of performance

### Small vs. Large Performance Dispersion 10-Year Average



### Small vs. Large Pairwise Stock Correlations 10-Year Average

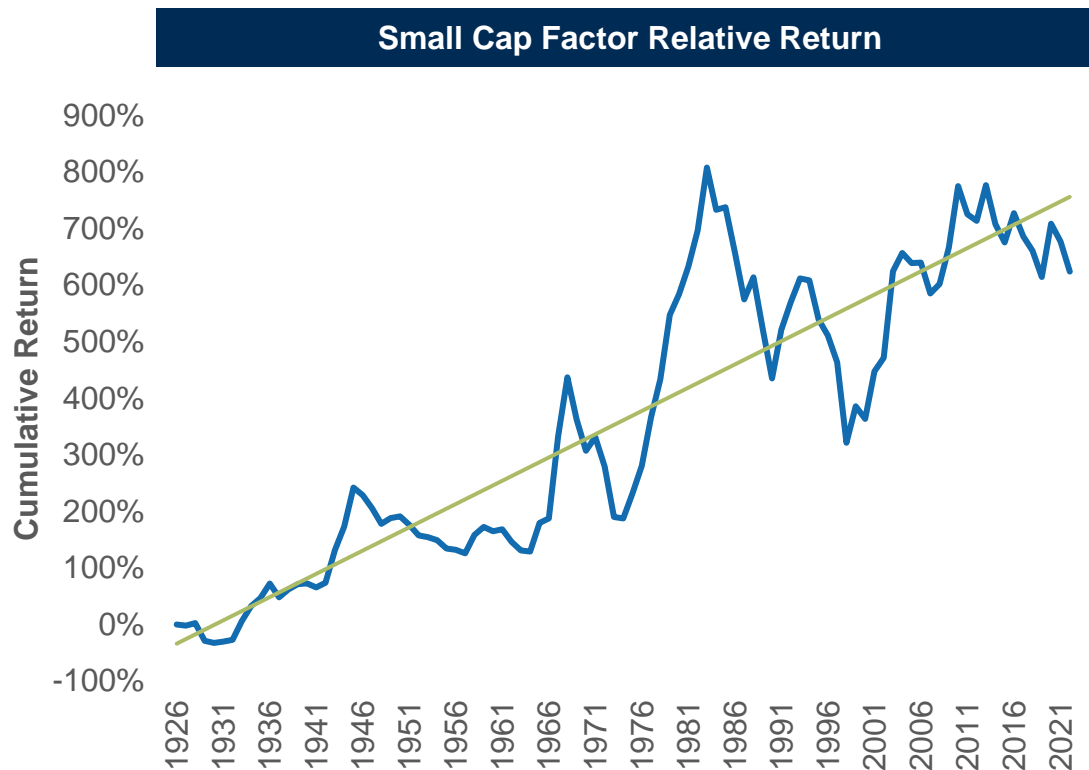


Source: BofA Securities. Performance divergence and stock correlations are 10-year average ending April 2023. Pairwise correlation compares the correlation of each stock in a particular index versus all other stocks in the same index. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

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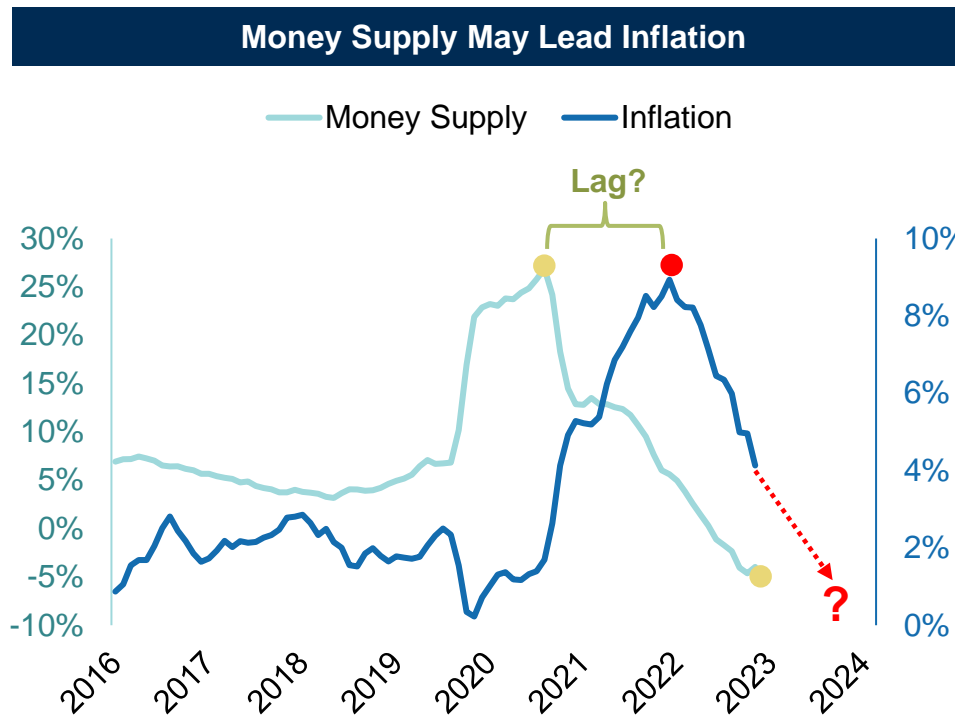
## A Small Opportunity? The Big Picture

- While small caps have had periods of relative underperformance, over history they have significantly outperformed their large cap cousins



Source: Kenneth R. French. Performance represents "Small Minus Large" Fama/French factor return for the CRSP universe which includes US firms listed on the NYSE, AMEX, or NASDAQ. Line is the linear regression line. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

- According to the U.S. Federal Reserve, monetary policy works with a long lag
- We believe the reduction in the money supply may lead to a decline in inflation and nominal growth over the next year



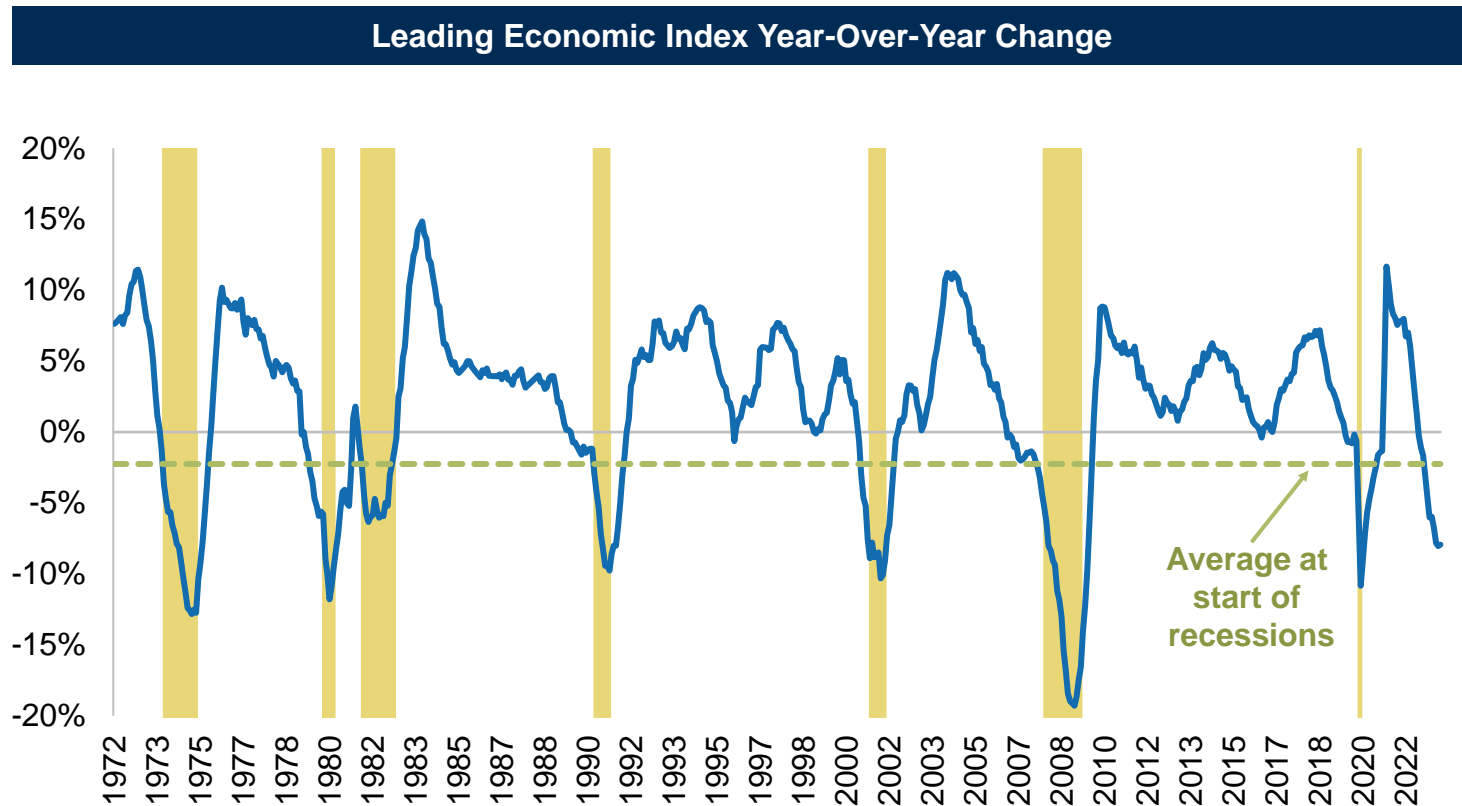
**Lower money supply  
= lower inflation?**

Source: U.S. Bureau of Labor Statistics and Federal Reserve. Money Supply is M2 and is the annual year-over-year change. Inflation is the Consumer Price Index (CPI), which measures the monthly change in prices paid by U.S. consumers. The dots represent the high and low points of each data set.

## Economic Outlook

### The Leading Edge

- Significant declines in the Leading Economic Index have historically preceded recessions



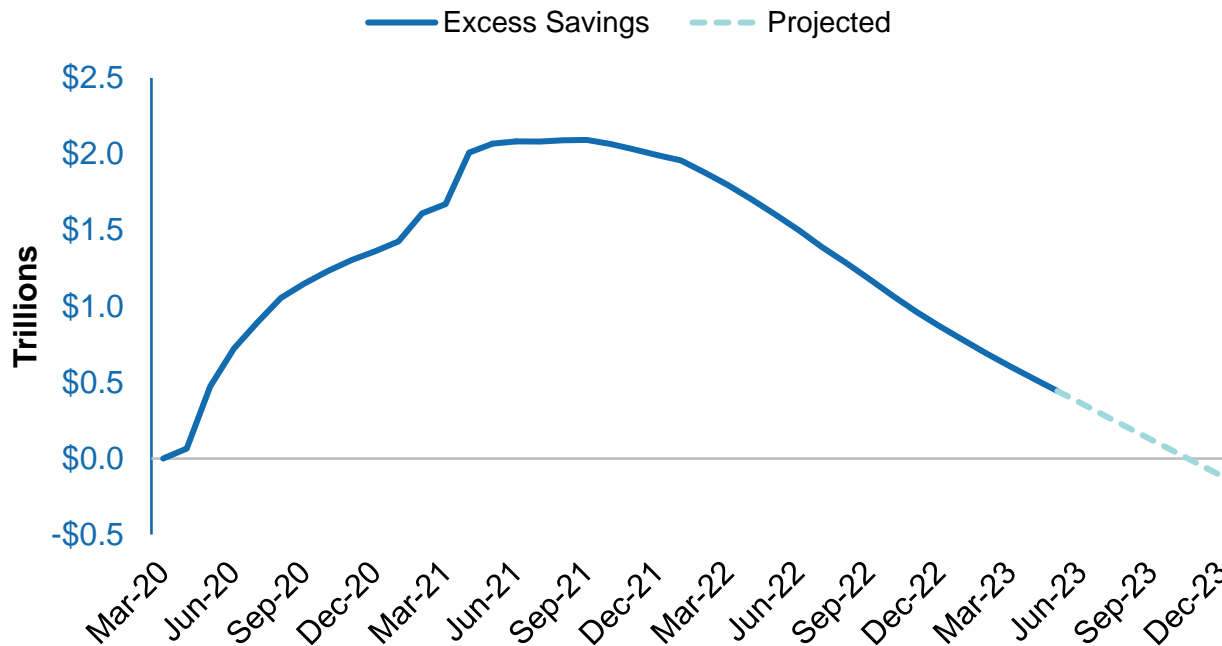
Source: The Conference Board with last data point for May 2023, NBER. The Leading Economic Index (LEI) is a monthly index of 10 economic components used to predict the direction of global economic movements in future months. Average at start of recessions utilizes data going back to 1960. Shaded regions represent U.S. recessions.

## Economic Outlook

### Piggy Bank Running Low?

- Total U.S. fiscal stimulus between 2020 and 2021 was approximately \$5 trillion, including direct payments to families and expanded unemployment benefits
- The \$2 trillion of excess savings consumers had amassed during the pandemic may be exhausted by the end of this year, in our view

#### U.S. Household Excess Savings



**Excess savings may soon be exhausted**

Source: Data from March 2020 through April 2023 from the U.S. Bureau of Economic Analysis. Projections after April 2023 are Alger estimates.

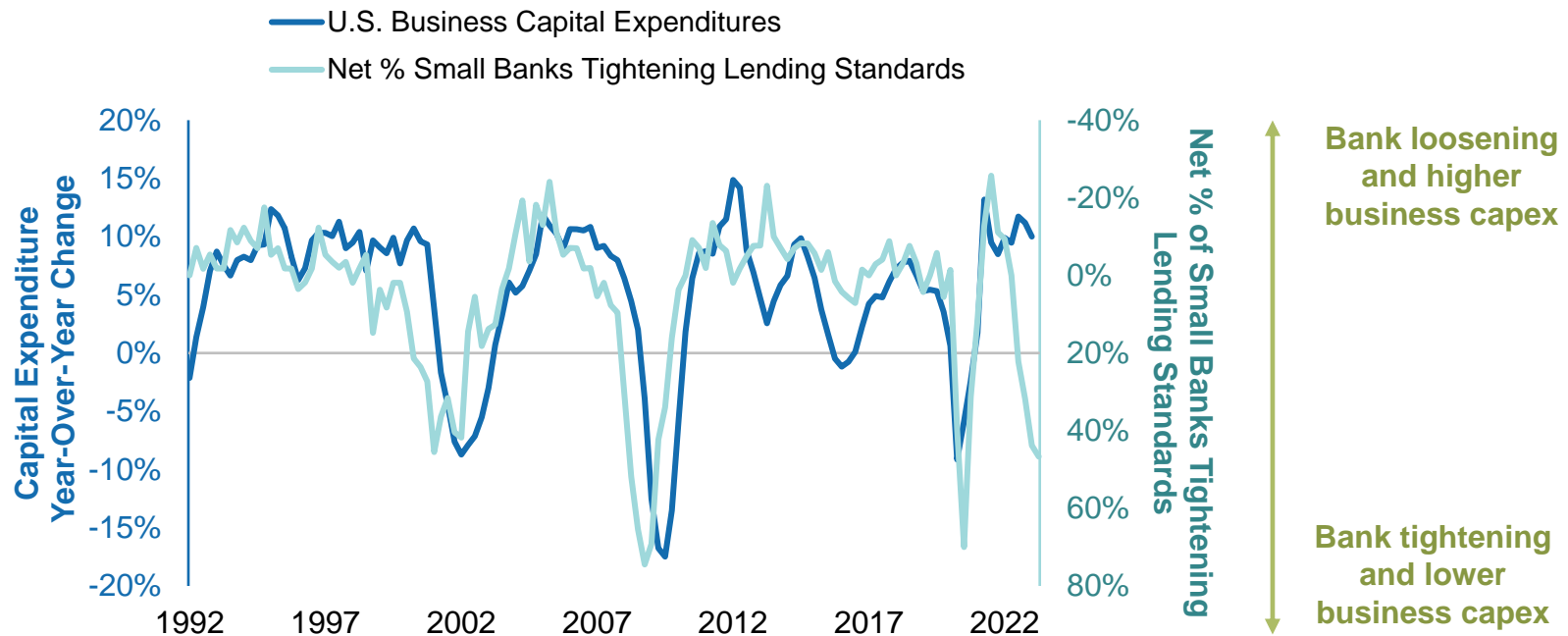


## Economic Outlook

### Lower Lending?

- There is a strong relationship between small bank lending standards and U.S. corporate business spending (-73% correlation with two quarter lead)
- The issues within the small bank industry may serve to further constrict lending and therefore capital expenditures

#### Lending Standards Have Historically Impacted Capital Expenditures



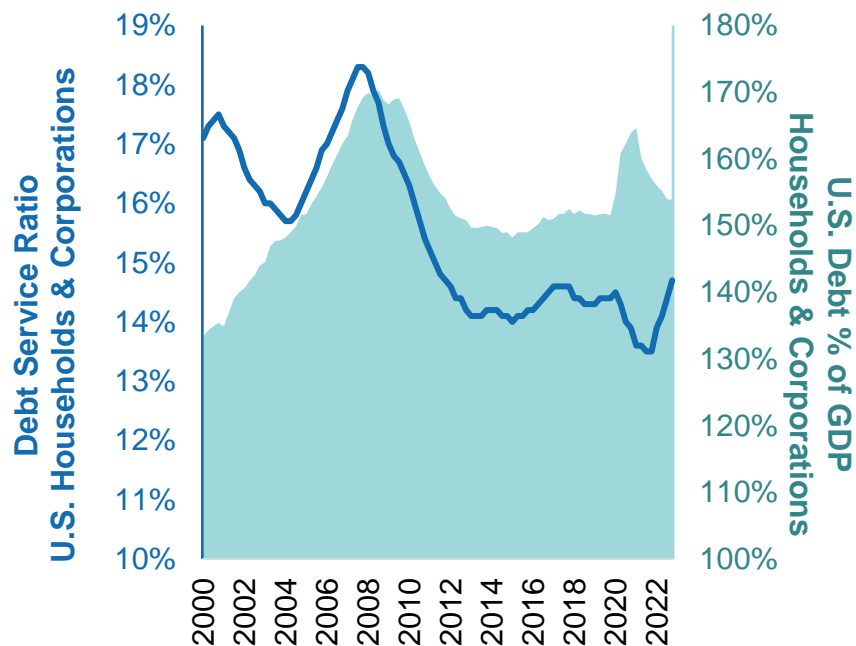
Source: Net percentage of small banks tightening lending standards from the Federal Reserve. U.S. business capital expenditures ("capex") is nonresidential gross domestic fixed investment from the U.S. Bureau of Economic Analysis. Correlation is a statistical measure that shows how two variables are related to each other. Chart data as of June 2023.

## Economic Outlook

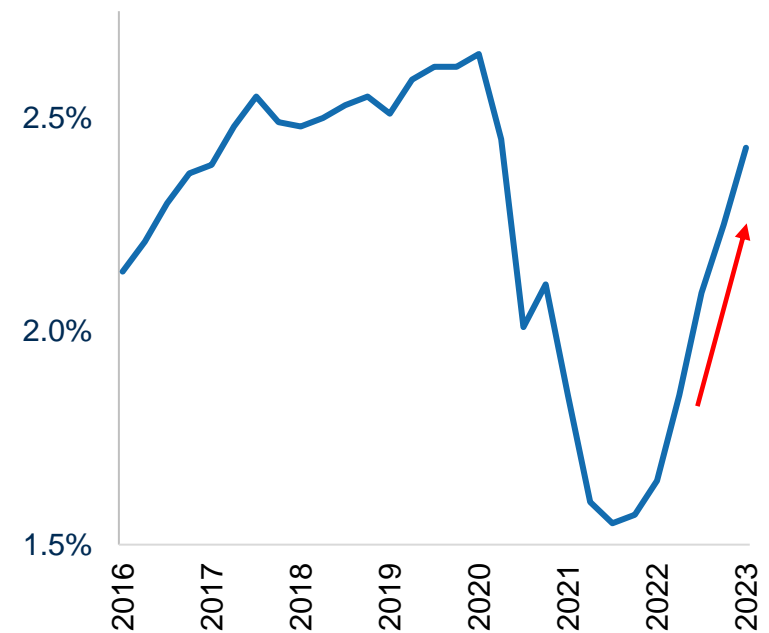
### Degrees of Debt

- While U.S. private sector debt servicing ratios are low, debt balances are not...
- ...and rising borrowing rates and decelerating income growth could trigger increased delinquencies

#### Debt Service Ratio and Debt Relative to GDP



#### Credit Card Delinquency Rate at U.S. Banks

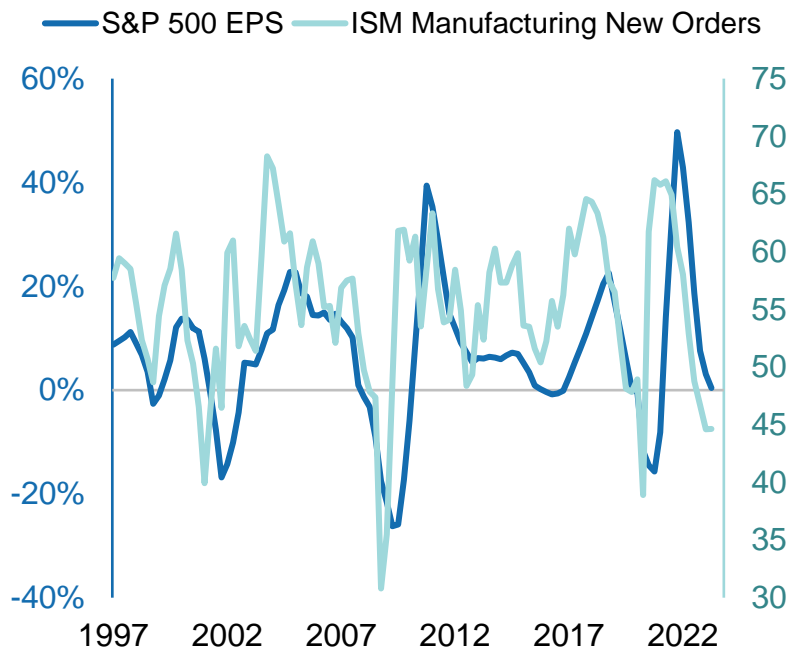


Source: Debt and debt service from Bank for International Settlements. The debt service ratio reflects the share of income used to service debt (interest and principal). Last data point for debt and delinquencies are 4Q22 and 1Q23, respectively. Delinquency rate from Board of Governors of the Federal Reserve System.

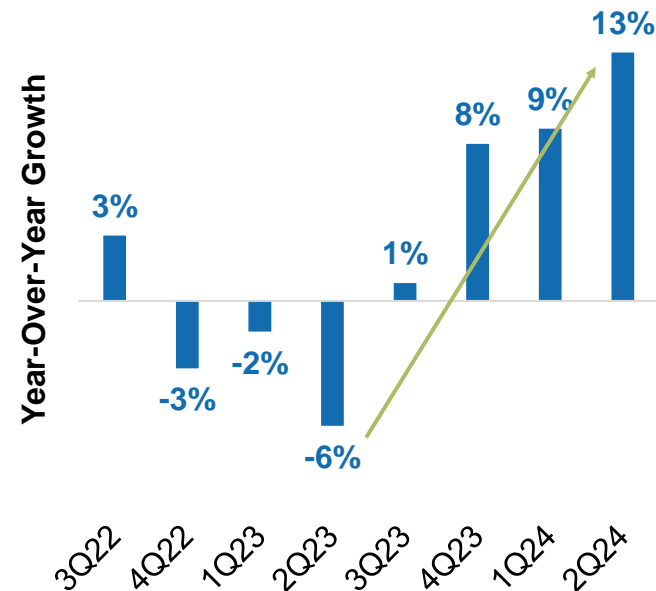
## Economic Outlook Yearning For Earnings

- The corporate earnings recession is in full swing with S&P 500 EPS down for 3 quarters and leading indicators remain weak
- Will the expected EPS growth ramp materialize or do earnings estimates need to come down?

### Manufacturing Orders Indicate Declining EPS



### Consensus S&P 500 EPS Growth

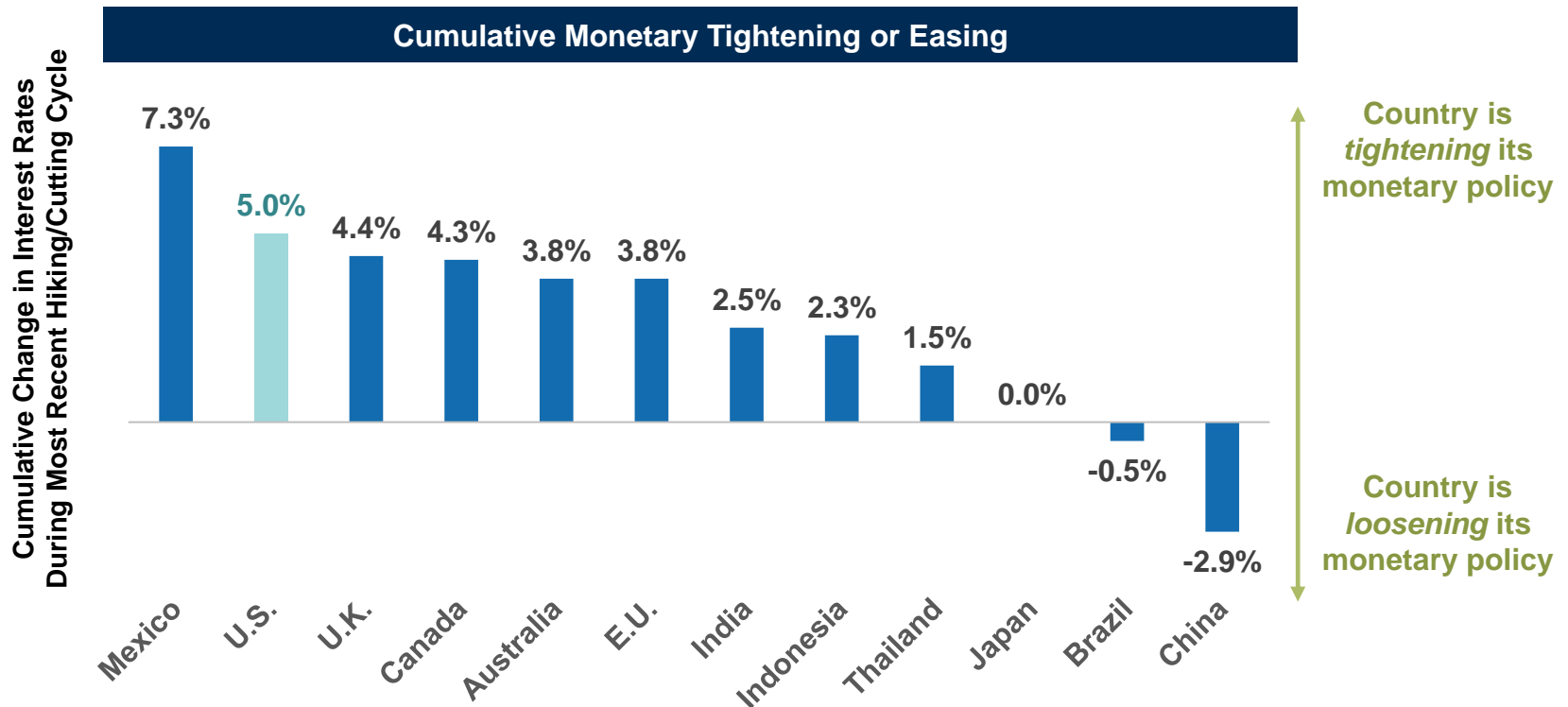


Source: S&P 500 EPS is year-over-year change from FactSet. ISM® Manufacturing New Orders (which indicates the magnitude of growth or decline in new orders from customers of manufacturing firms reported by survey respondents compared to the previous month) from The Institute of Supply Management ISM® Report On Business® – Manufacturing (PMI®). S&P 500 estimates EPS growth is from FactSet, which is aggregating bottom-up consensus analyst estimates. Earnings per share (EPS) is the portion of a company's earnings or profit allocated to each share of common stock. 2Q23 – 2Q24 are estimated.

## Economic Outlook

### Different Places in the Cycle

- Some countries are further ahead of the U.S. in monetary tightening while some are lagging
- Those countries who are easing or close to easing or who are lagging far behind in terms of tightening may be in a more attractive part of the economic cycle for investors



Source: Council On Foreign Relations, May 2023. Data refers to cumulative monetary policy changes in most recent hiking/cutting cycle, with Brazil using consensus forecast for 3Q23.

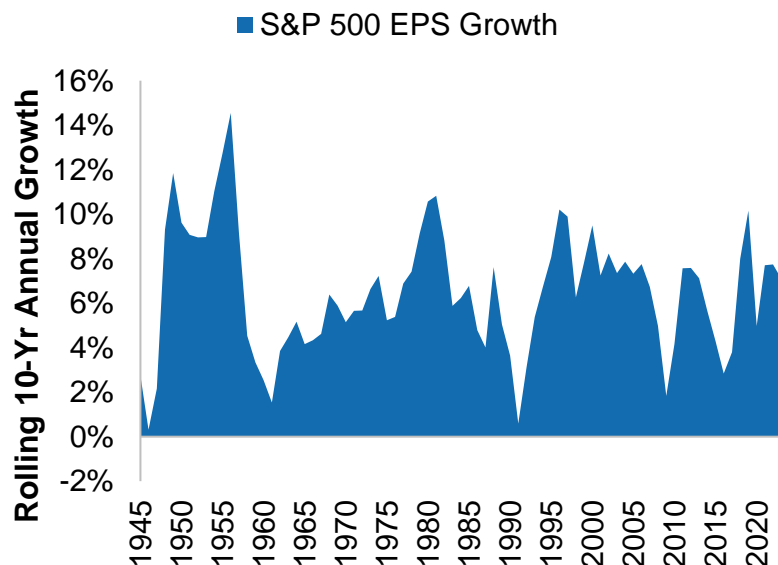


## The Long Run

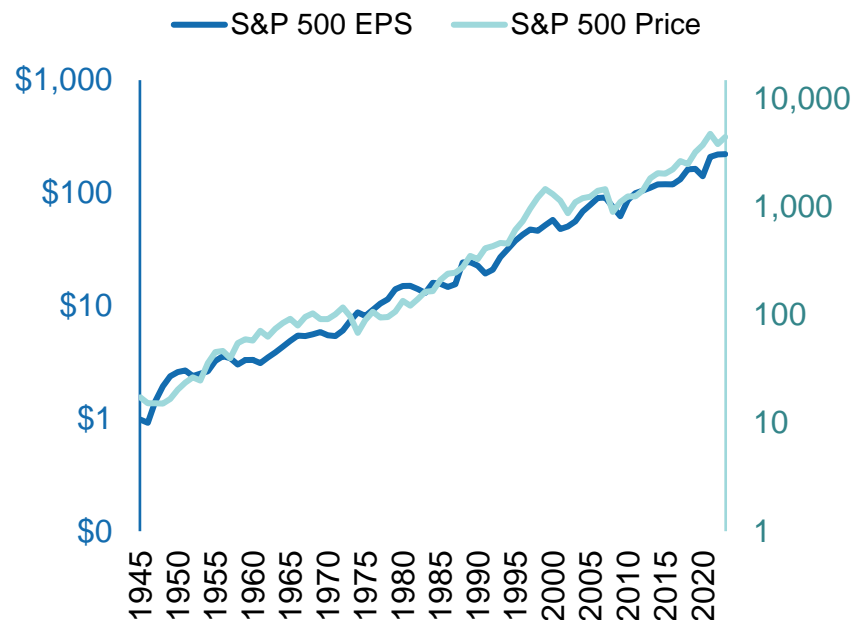
### Powerful Long-Term Trends

- Earnings have historically grown over full cycles
- Post WWII, S&P 500 EPS has always grown over 10-year periods
- The S&P 500 price has increased in-line with the 7% annual growth in earnings
- Huge wealth creation despite 12 recessions and several wars

#### Earnings Have Historically Grown...



#### ...Driving Stocks Prices Upward at a Similar Rate



Source: FactSet. EPS and Price data through 6/30/23. The performance data quoted represents past performance, which is not an indication or a guarantee of future results.

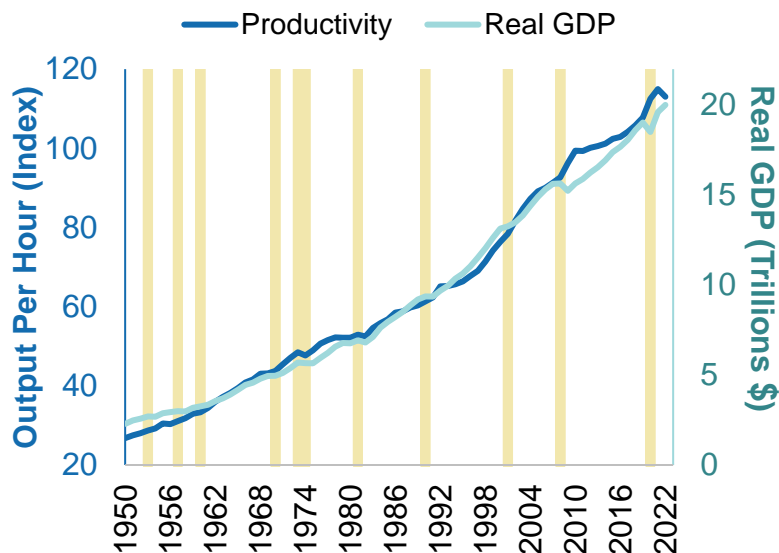


## The Long Run

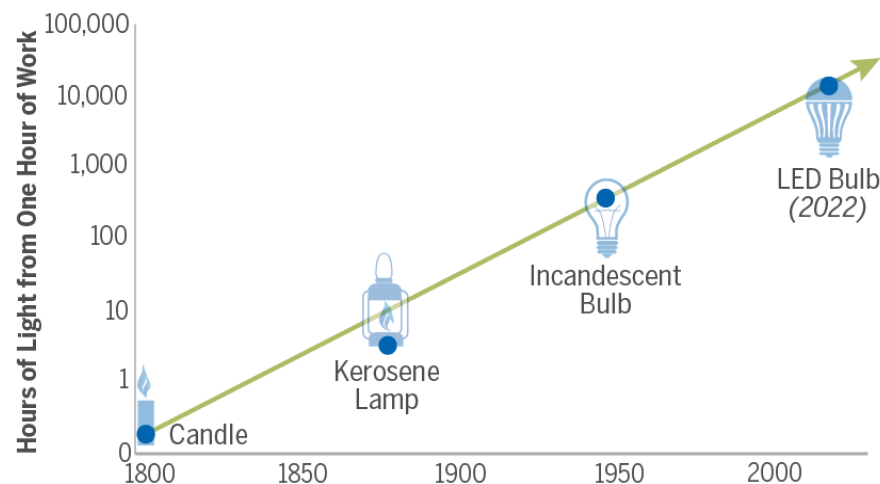
### The Engine of Growth

- If earnings drive stock prices and GDP drives corporate earnings, what propels GDP?
  - *Answer:* productivity (output per hour)
- If increasing output per hour is the main ingredient to better living standards over time, what drives productivity higher?
  - *Answer:* innovation

#### Productivity Improvements Increase GDP



#### Innovation Drives Productivity



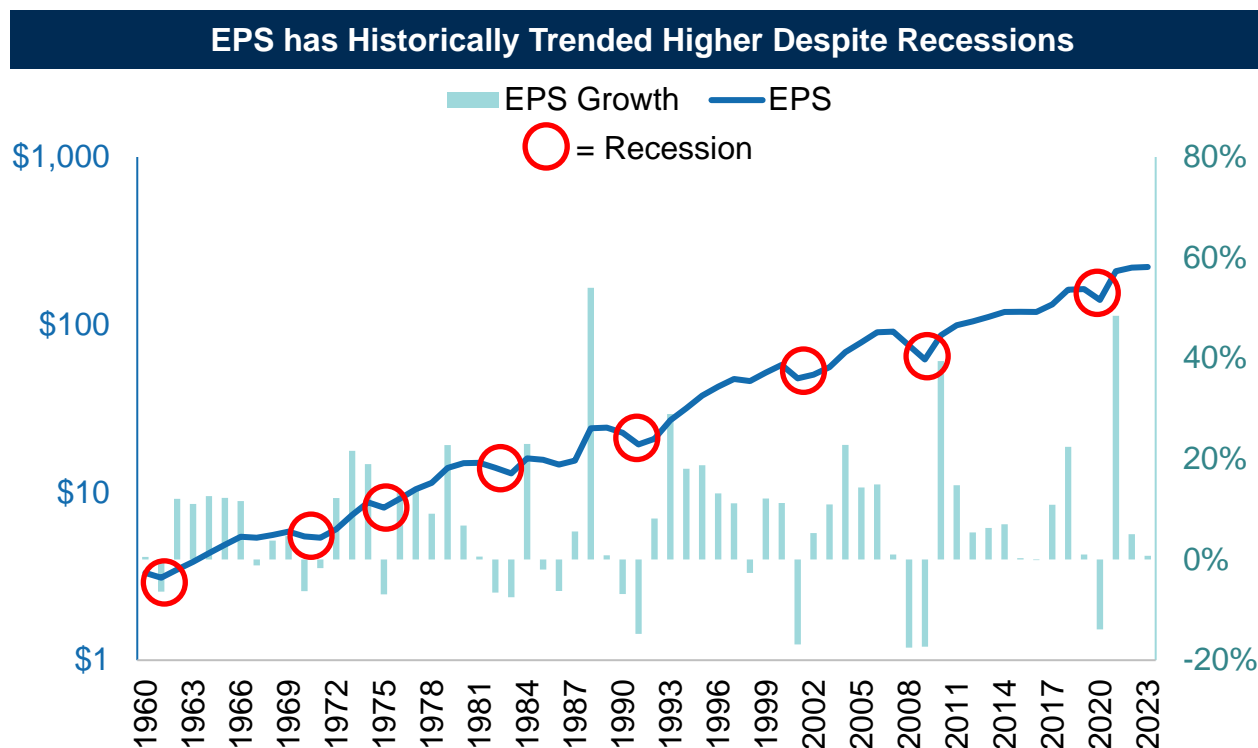
Source: Data for left chart from U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis through 2022. Shaded regions denote U.S. recessions as determined by the National Bureau of Economic Research. Data for right chart from William D. Nordhaus, "Do real output and real wage measures capture reality? The history of lighting suggests not," in "The Economics of New Goods" ed. T.F. Breshnahan and R. Gordon, Chicago University Press, and Alger estimates. **Investing in innovation is not without risk and there is no guarantee that investments in research and development will result in a company gaining market share or achieving enhanced revenue.**



## The Long Run

### Recessions and Recoveries

- S&P 500 earnings have declined in past recessions, but historically, EPS has reached or nearly reached a new high in the first or second year after the recession ended
  - Temporary EPS declines shouldn't theoretically impact long-term value significantly

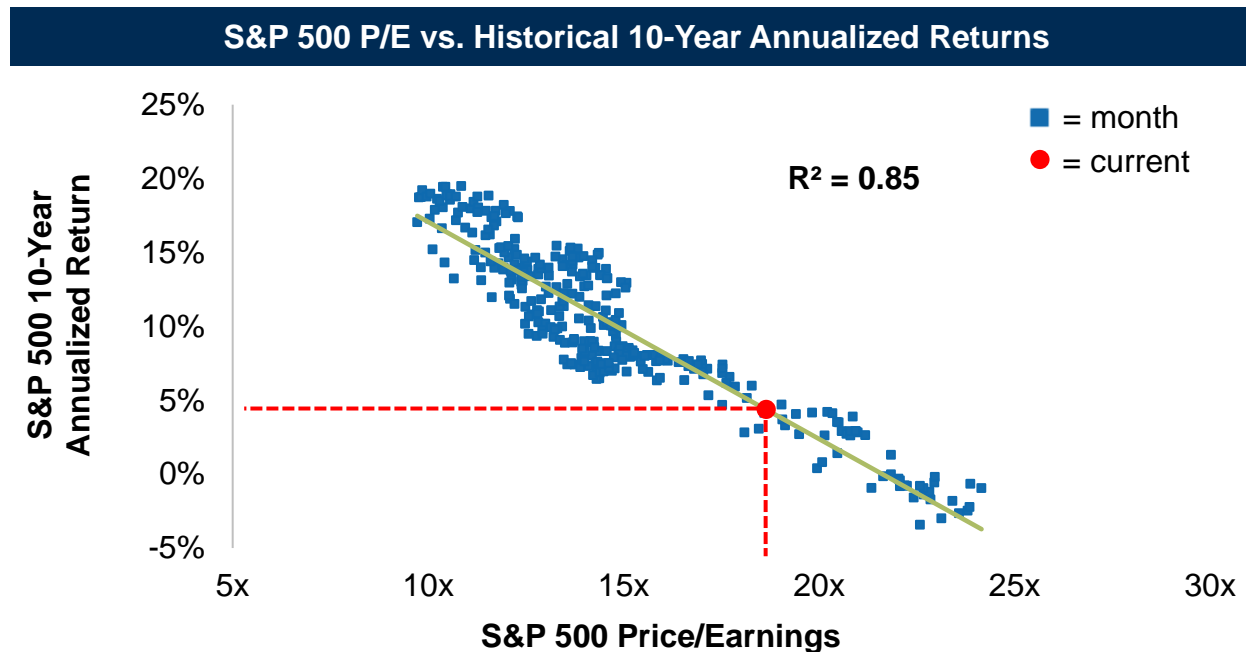


Source: S&P reported EPS 1960-1987. S&P operating EPS 1988-1995, FactSet S&P 500 Operating EPS 1996 to present.



## The Long Run Many Happy Returns?

- There is a strong historical relationship between starting equity valuations and subsequent 10-year annualized returns



Source: FactSet. Each dot represents the P/E during that month and the returns generated over the subsequent 10 years. The starting P/E ratio is the price divided by the next 12-month earnings per share estimate at the start of each 10-year period measured. Monthly data through June 2023 and beginning in January 1986. R-squared is a statistical measure used to analyze how differences in one variable can be explained by the difference in a second variable. In the context of the chart, it measures the proportion of the variability of the dependent variable (subsequent 10-year annualized return) that can be explained by the independent variable (price-to-earnings). An R-squared value of 1.00 means that the independent variable (price-to-earnings) perfectly explains the variability in the dependent variable (subsequent 10-year annualized return), while a value of 0.00 means that the independent variable cannot explain any of the variability. In the chart, the R-squared of 0.85 means that 85% of the variability in subsequent 10-year annualized returns can be explained by the price-to-earnings multiple. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**



# IV

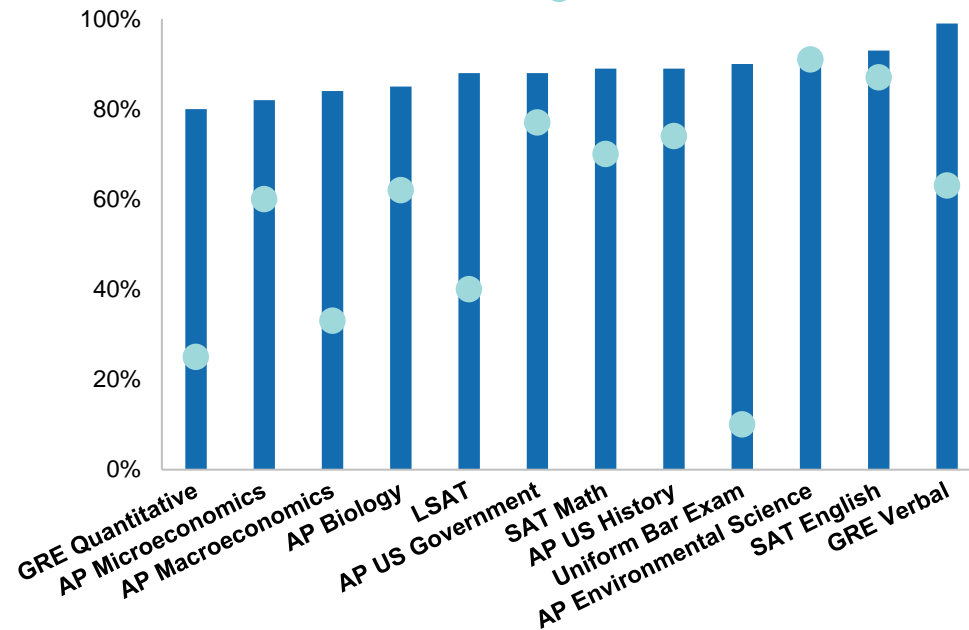
## Enduring Themes Artificial Intelligence

- With AI growing much faster than Moore's Law, tremendous progress is being made quickly
- Companies providing AI-based software or hardware have a large opportunity, in our view

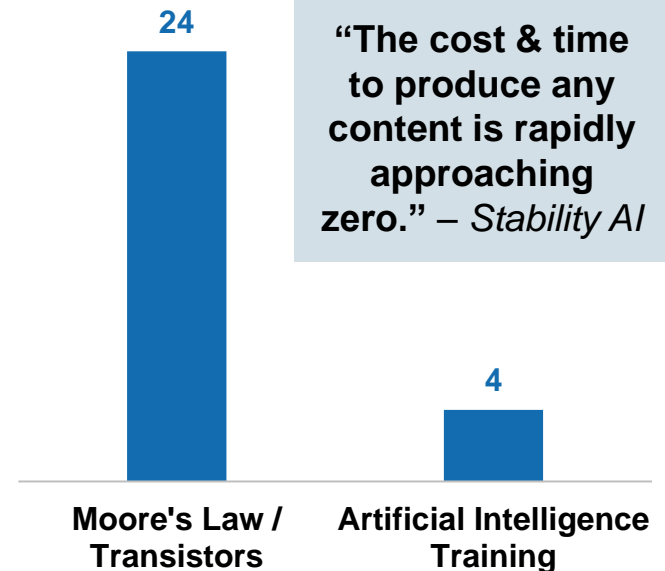
### AI is Smart and Getting Smarter

Estimated percentile  
among test takers

■ GPT-4  
● GPT-3.5



### Doubling Time in Months



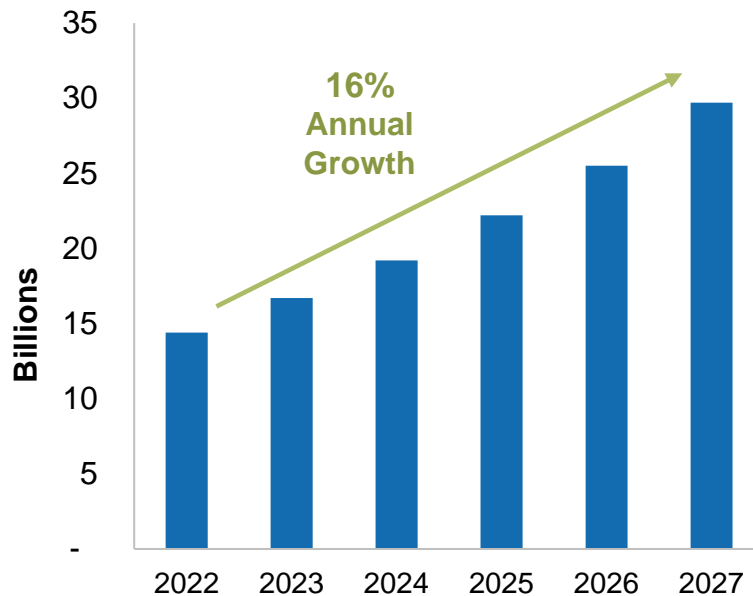
Source: OpenAI (2023). Chat GPT-4, which launched March 13, 2023, is a more advanced language model than Chat GPT-3.5. Doubling time from Intel, Our World in Data, Alger. Doubling time refers to the amount of compute or “training” utilized by AI programs, while Moore’s Law refers to length of time that it takes for the number of transistors per integrated circuit to double. Evaluation periods vary.

# IV

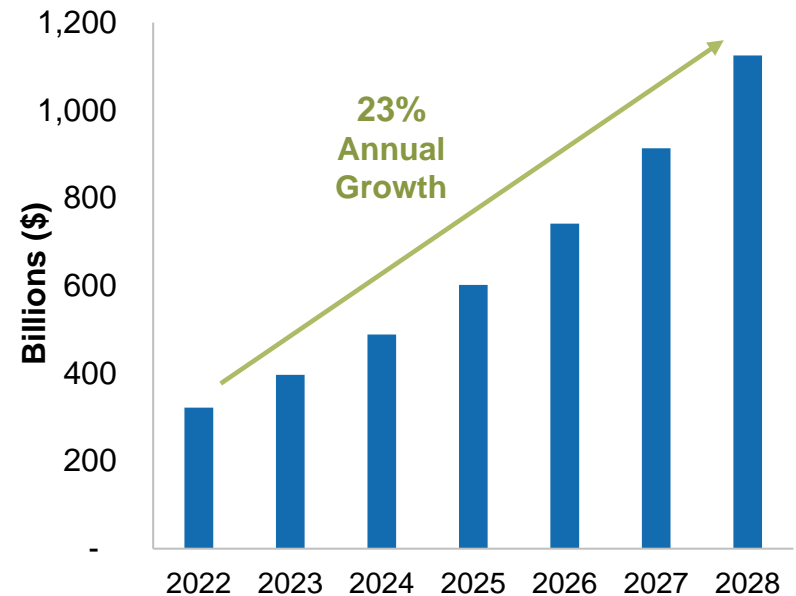
## Enduring Themes Internet of Things

- The explosion in connected devices is creating the “Internet of Things” or IoT, transmitting valuable and actionable information
  - Drivers of IoT spending include security, data analytics, efficiencies, reliability, customer service, improved ROI and compliance

Global IoT Connected Devices



Global Industrial IoT Market Size

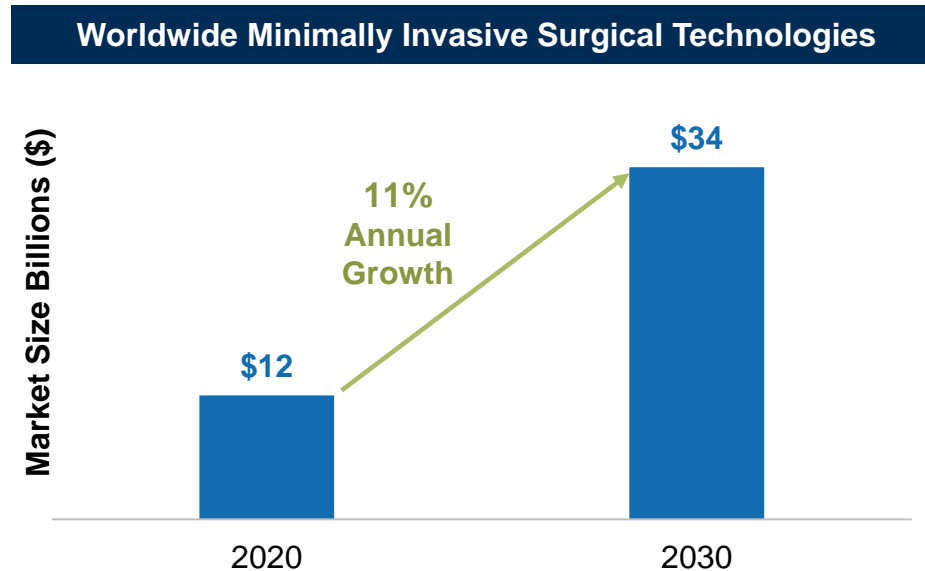


Source: IOT Analytics, May 2023 (2023 – 2027 are estimates), and Grand View Research, March 2022 (2021 – 2028 are estimates).

# IV

## Enduring Themes Advances in Surgical Technologies

- Improvements in surgical procedures owing to advances in bioengineering and biomaterials should drive improved outcomes for patients and revenue opportunities for innovative companies in our view
  - Robotic surgery
  - Minimally invasive structural heart interventions
  - Organ preservation for transplants

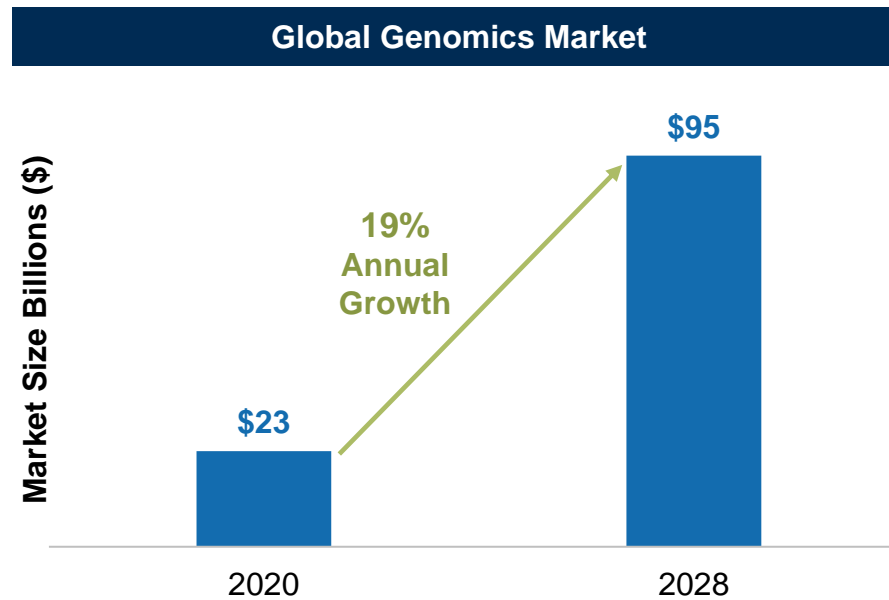


Source: Alger analysis. 2030 is an estimate. Market consists of surgical robotics, percutaneous heart valve repair, and minimally invasive technologies.

# IV

## Enduring Themes Genomics Innovation

- Genetic analysis and manipulation will increasingly impact the practice of health care
  - Turning sick care into preventive health care by giving insight into predisposed diseases (e.g., liquid biopsy for early multi-cancer detection)
  - Delivering more efficacious treatments via targeted therapies (e.g., mRNA therapies)

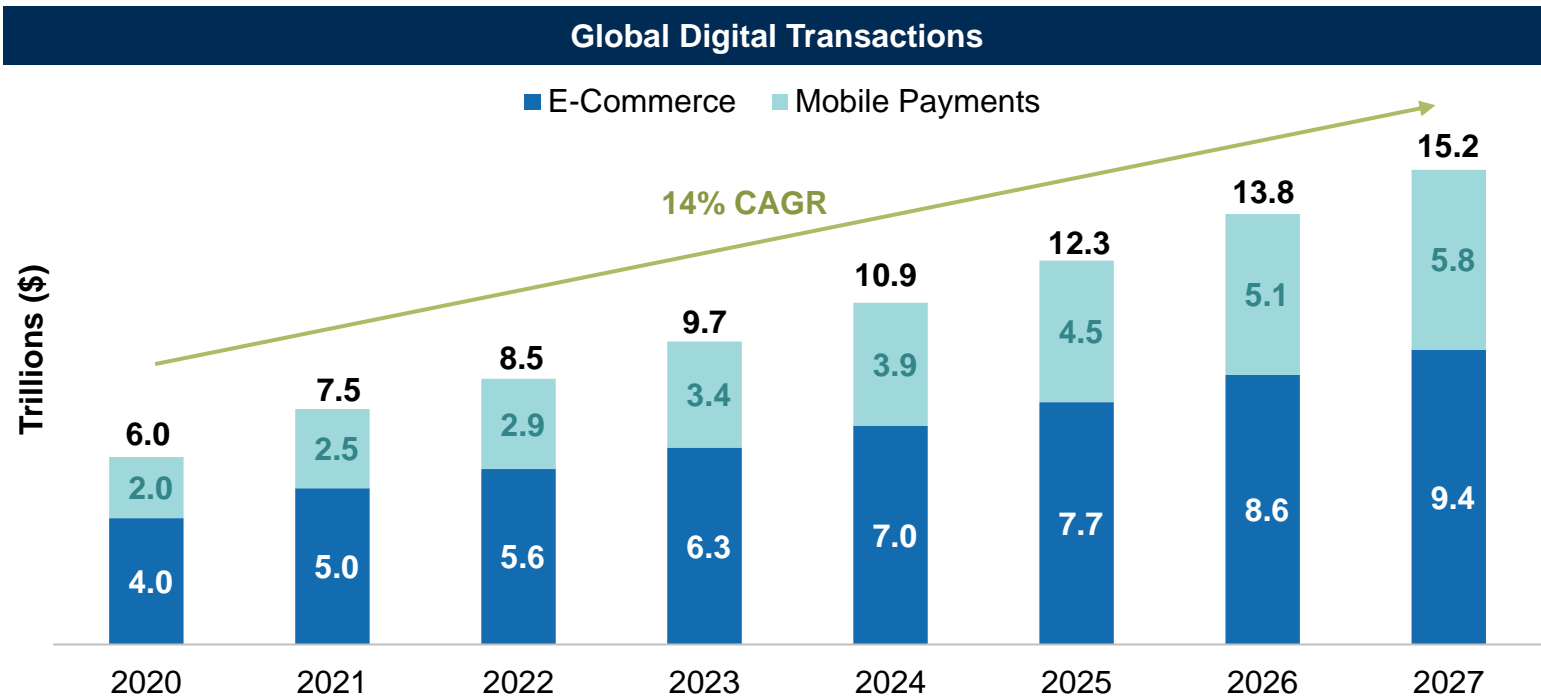


Source: Fortune Business Insights, January 2022. 2028 is an estimate.

# IV

## Enduring Themes Digital Payments

- Digital payments continue to outgrow the broad economy as they gain penetration, driven by increasing e-commerce and mobile payments
  - China has the largest volume of digital payments and Europe is growing fastest
- Payment networks, processors and software companies can capitalize on the trend

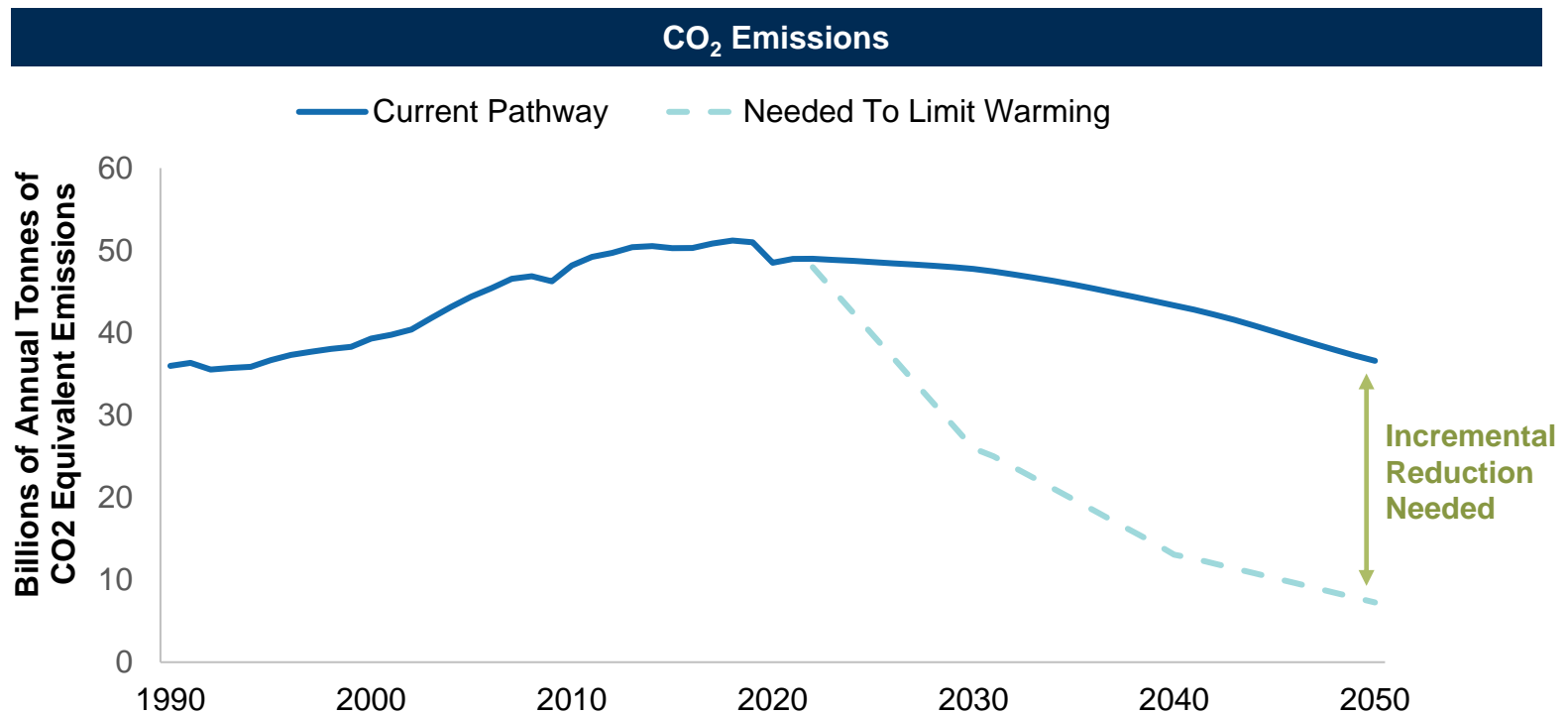


Source: Statista, August 2022 (2022 – 2027 are estimates). E-commerce includes digital remittances. CAGR is compound annual growth rate, the rate of return required for a quantity to grow from its beginning balance to its ending balance. Mobile payments occur when smartphones are used to process transactions using wireless communication or scan QR barcodes.

# IV

## Enduring Themes Emission Reductions

- The rate of CO<sub>2</sub> emissions is not sustainable in our view and current emission targets need to be reduced further
- Reducing emissions may provide opportunities in alternative energy sources and in electric vehicles and related products and services



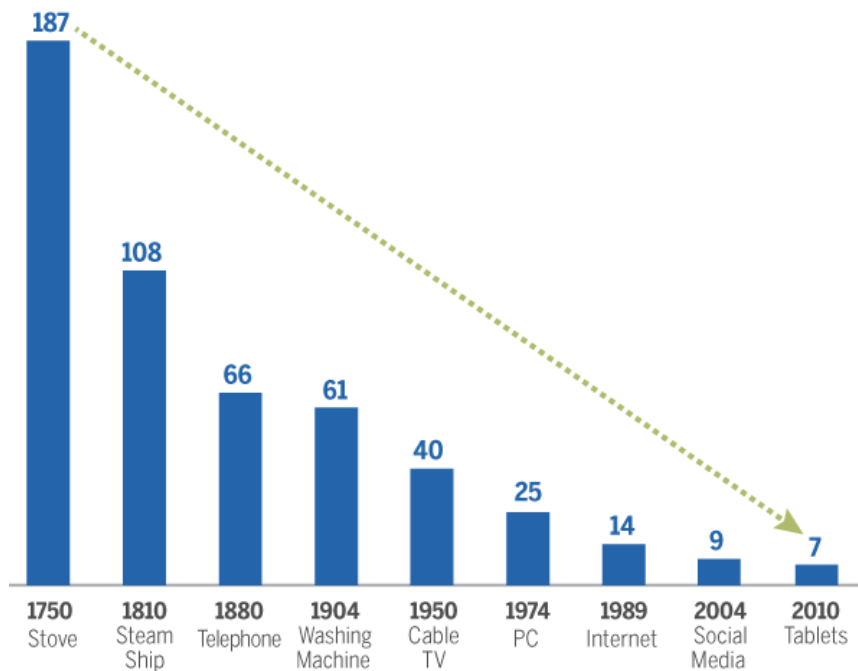
Source: Climate Action Project, May 2021. Current pathway represents average of high and low “pledges and targets” scenario while needed to limit warming is based on median to achieve 1.5 degrees Celsius warming.

# V

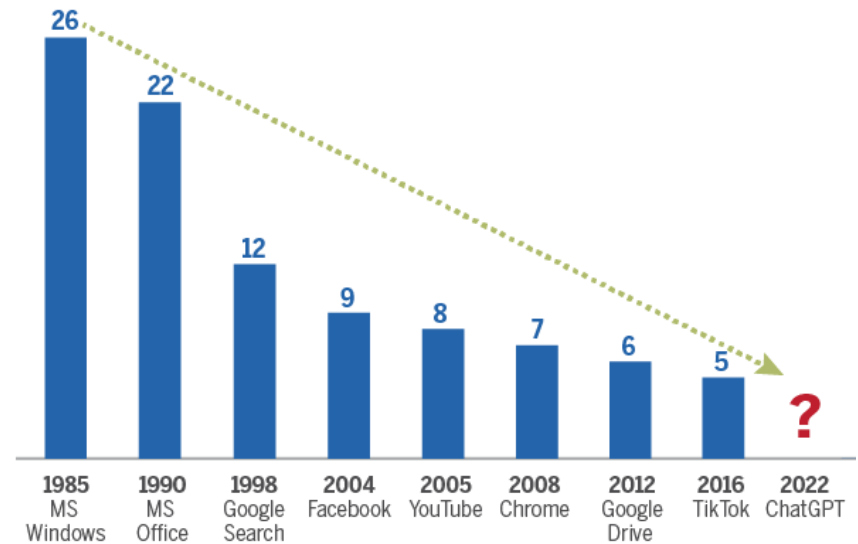
## Style Wars Accelerating Change

- Innovation is accelerating across many areas of the economy, causing new products and services to diffuse through society faster and disrupt businesses at a greater pace
- This may be a tailwind to growth companies, which we believe are the drivers of innovation, and a headwind to value stocks, which may be victims of change

Years from Market Entry to 50% Penetration



Years to Reach 1 Billion Users



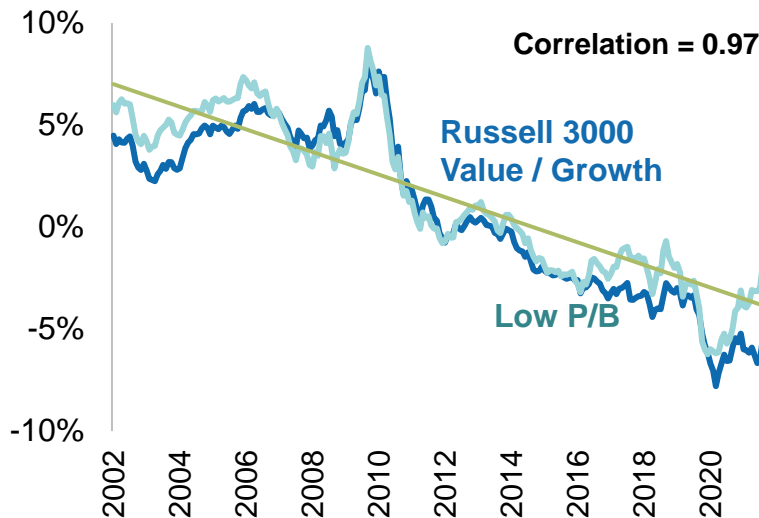
Source: Asymco, Visual Capitalist, company disclosures, Alger estimates.

# V

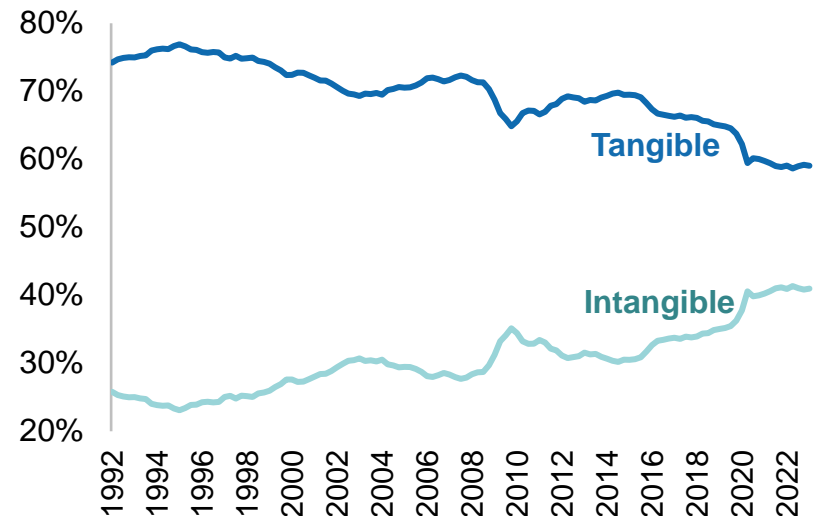
## Style Wars Structural Issues Driving Growth vs. Value

- Despite recent outperformance, value stocks have underperformed over the long-term
  - Driven by the very weak performance of the price-to-book valuation metric
- Book value may no longer be as relevant, making current style classification flawed
  - As a result of increasing use of intangible assets that are expensed rather than capitalized

**Value/Growth vs. P/B Cumulative Return  
10-Year Rolling Return**



**Business Investment  
Intangible vs. Tangible**



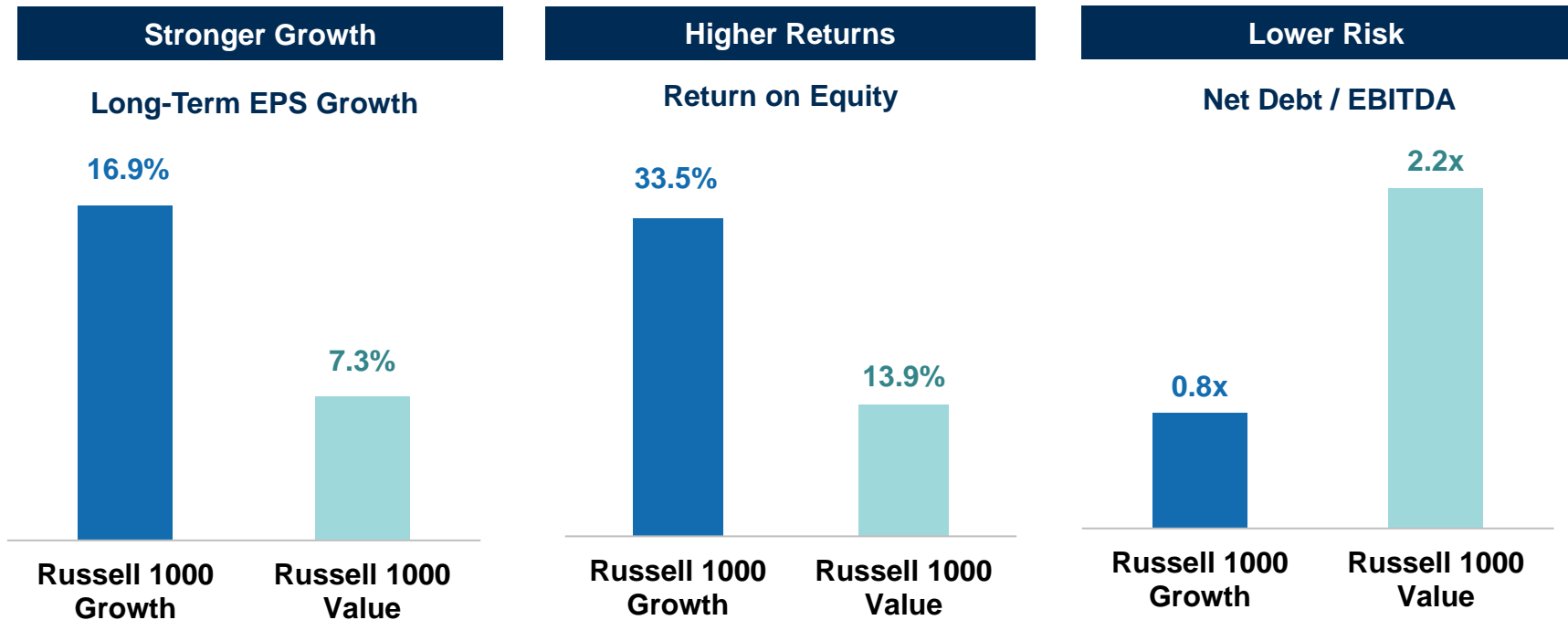
Source: FactSet, Kenneth R. French, FactSet, Bureau of Economic Analysis. Low price-to-book returns are based on the B/P Fama/French factor for the CRSP universe which includes US firms listed on the NYSE, AMEX, or NASDAQ. Correlation measures a relationship estimate between two variables. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**



## Style Wars

### The Growth Advantage

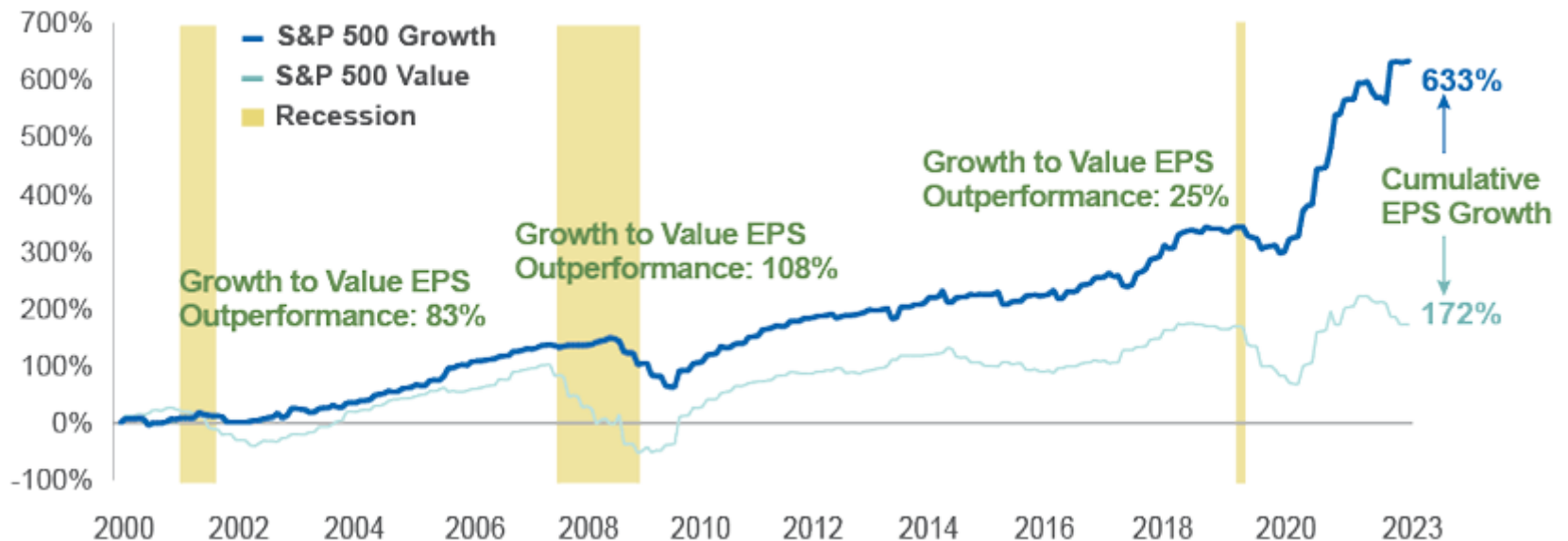
- Three variables drive P/E multiples: growth, return on capital and risk
- The Russell 1000 Growth Index has higher expected EPS growth, higher return on equity and lower risk in the form of better balance sheets as compared to the Russell 1000 Value Index



Source: FactSet as of 3/31/23. Growth represents consensus long-term analyst estimates and actual future EPS growth rates might be materially different than the forecasts shown.

- Market share gains have enabled growth stocks to post better fundamentals than value stocks in the past, including in recessions

### Growth Stocks Have Historically Had Better Fundamentals



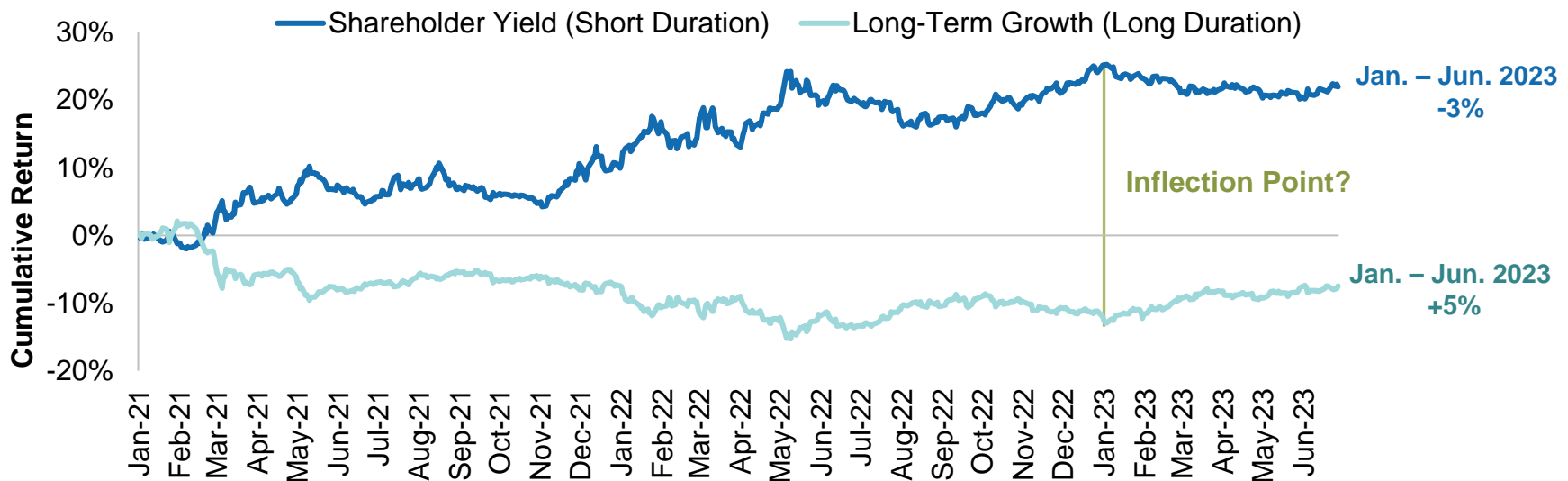
Source: FactSet, Standard and Poor's. Data is through 4/28/23. EPS is a Last Twelve Month (LTM) calculation. Earnings per share (EPS) is the portion of a company's earnings or profit allocated to each share of common stock. EPS Growth to Value outperformance calculation takes the relative difference in LTM EPS level of the S&P 500 Growth and S&P 500 Value Indexes at the beginning of each recession and six months after the end of the corresponding recession.

# V

## Style Wars The Duration Trade

- Over the past couple of years, we believe rising interest rates hurt those securities with cash flows furthest in the future or those with higher “durations”
- The duration trade drove investors to seek more current cash flows at the expense of growth reducing the valuations of some of the longest duration growth equities relative to the broad market to the lowest levels in decades\*
- We believe that we may have hit an inflection point in January 2023, marking the reversal of investor preference for shorter duration trades over longer duration trades

### The Duration Trade has Begun to Reverse as Interest Rate Increases have Abated



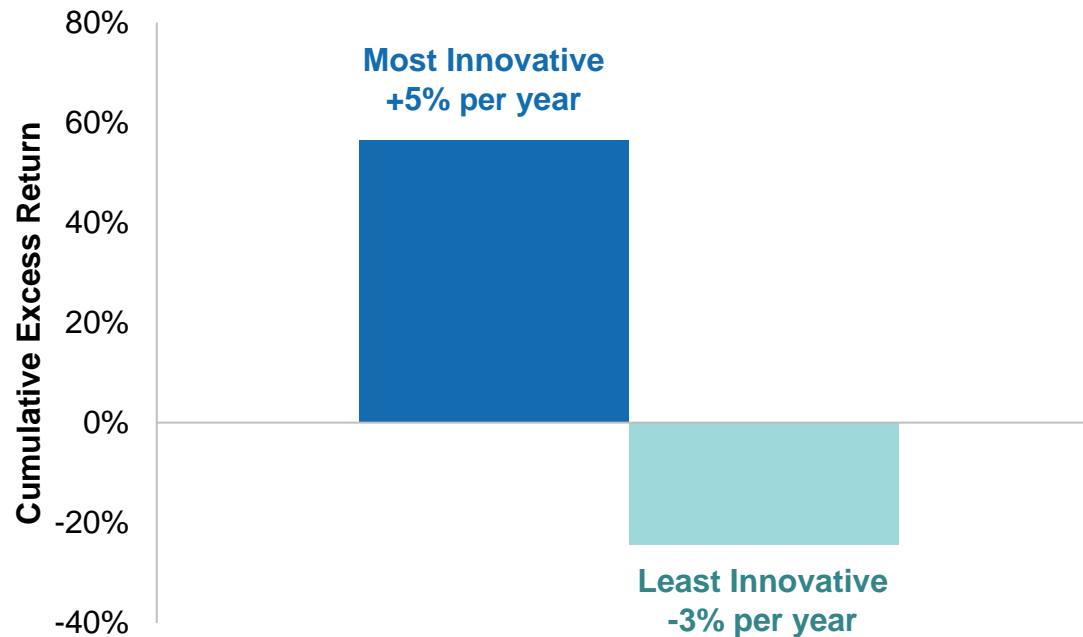
Source: Piper Sandler and FactSet as of 6/30/23. Factor performance relative to the S&P 1500, which is sector neutral and is calculated by taking the relative performance of the top quintile of stocks against the bottom quintile of stocks for each factor. The constituents in the quintiles are rebalanced monthly. The factor “Shareholder Yield” is [Last Twelve Months (LTM) Common and Preferred Stock Purchased - LTM Common and Preferred Stock Sold + LTM Total Common Dividends] / Market Capitalization. The factor “Long-term Growth” is mean estimated 5-year EPS growth. \*The P/E of the S&P 600 Growth hit an all-time low against the S&P 500 in May 2022 and remains significantly below its historical average premium to the S&P 500 as of May 31, 2023.

## Style Wars

### A Powerful New Investing Factor?

- Studies have shown and our research demonstrates that the most innovative companies have grown their sales, earnings and stock prices faster\*

#### Innovative Companies Have Outperformed Over the Past Decade



Source: FactSet. Excess performance of the quintiles of R&D as a percentage of revenue with the most innovative being top quintile and the least innovative being bottom quintile of the stocks in the S&P 1500 index. Stocks were divided into quintiles based on R&D spending-to-revenue and calculated monthly for the 10-year period ended May 2023. \*Baruch Lev and Suresh Radhakrishnan, "The Stock Market Valuation of R&D Leaders." The performance data quoted represents past performance, which is not an indication or a guarantee of future results. Innovative companies may be defined as those companies with a high ratio of annual R&D investment to revenue. Investing in innovation is not without risk and there is no guarantee that investments in research and development will result in a company gaining market share or achieving enhanced revenue.

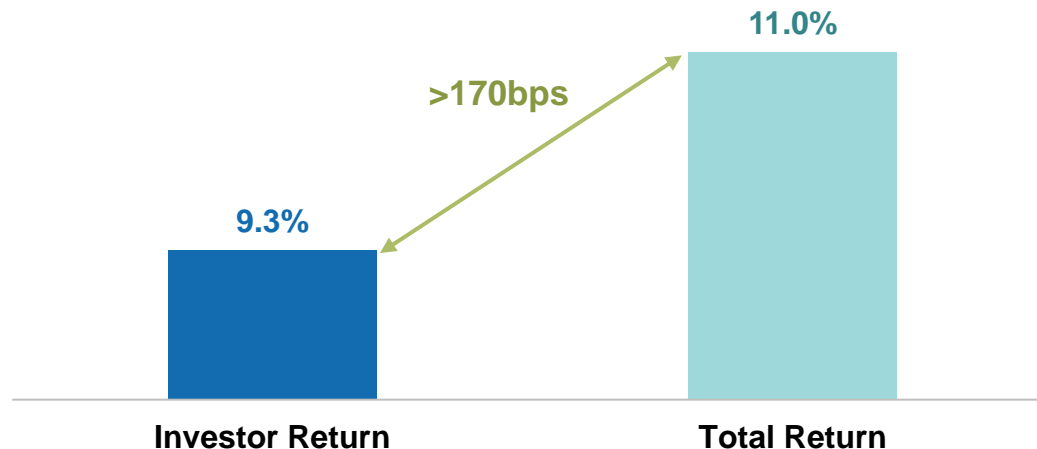
# VI

## Making Better Decisions Sub-Optimal Results

- Studies demonstrate investors have significantly underperformed because of less-than-optimal decisions, which drive poor timing of purchases and sales of investments
  - Potentially a result of biases such as herding, loss aversion, or confirmation bias

### The Average Investor has Underperformed

Annual Returns for 10 Years Ending 2021  
of U.S. Mutual Funds and ETFs



Source: Morningstar Mind The Gap 2022. The annual total return calculation is time-weighted, where a lump-sum investment made at the beginning of the period and held throughout the entire measurement term. The investor return calculation is the internal rate of return that accounts for timing of all cash flows. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

# VI

## Making Better Decisions Behaving Better Checklist

- How can investors take tangible actions to “behave better” and try to make better investing decisions?

### DO...

- ☐ Put your investment goals in writing
- ☐ Assign short- and long-term timeframes to your goals
- ☐ Evaluate several scenarios as potential outcomes. What happens in a weak return environment compared to one with strong returns?
- ☐ Build your portfolio using an agreed-upon asset allocation framework. This may help remove emotional bias.
- ☐ Implement, and stick to, a game plan.

### DON'T...

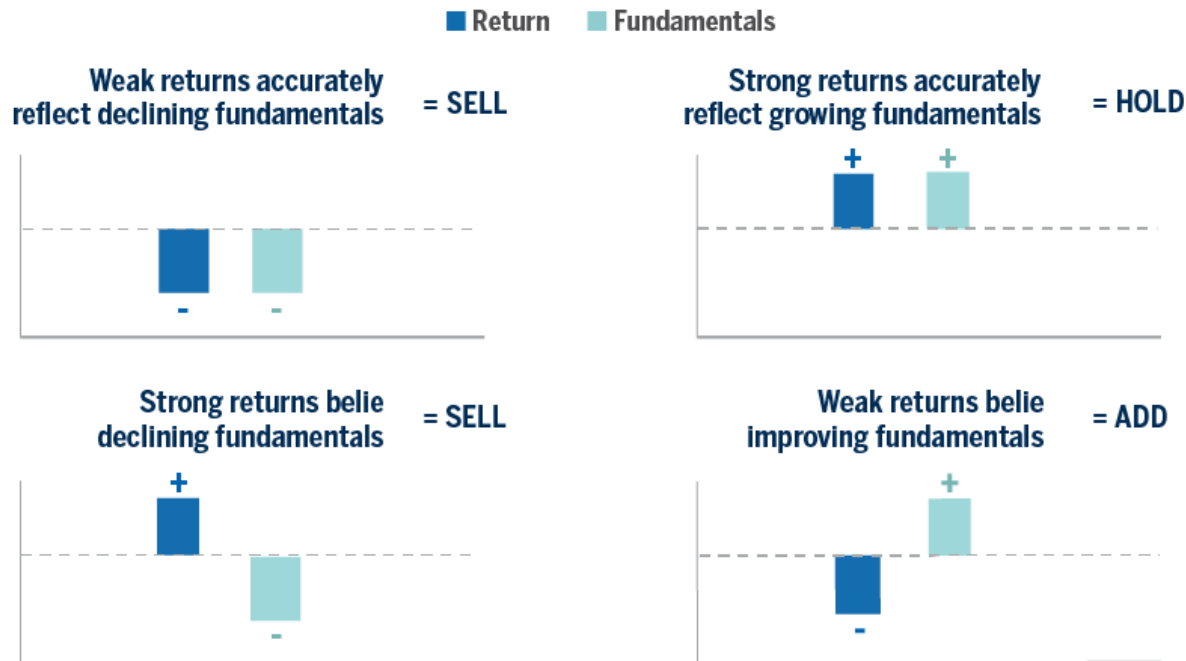
- ☐ Chase recent returns. You'll likely be disappointed as recent past performance may not be indicative of future results.
- ☐ Make investments outside of the framework you established.
- ☐ Use your “gut” to make decisions. Even if successful, it is unlikely to be sustainable because process, not results, should be evaluated and optimized to ensure repeatability.

# VI

## Making Better Decisions Evaluating Funds

- By assessing the fundamentals of a portfolio's positions, investors may be able to gain a better understanding of whether a manager's performance is a result of an accurate view of the sales and earnings power of their holdings or if the strategy is just in or out of style

### Four Potential Scenarios for Holding, Selling or Adding to a Portfolio



Source: Alger. This chart is for illustrative purposes only. The chart above describes four potential investment scenarios an investor may consider when focusing on the fundamentals of a portfolio's positions. Company fundamentals typically refer to the financial and operational information about a company that investors use to assess its overall health and potential for future growth. This includes considerations around the company's revenue, earnings, assets and liabilities, and cash flow.

# About Alger

## Growth Equity Pioneer

- Helping clients achieve their growth equity investment objectives for over 50 years

## Inclusive and Independent

- Private, 100% women-owned investment boutique with employee participation
- 50% of portfolio managers are women and/or minorities

## Time-Tested Investment Philosophy

- Singular focus on researching and investing in companies associated with change, disruption and innovation
- Dedicated to generating superior investment returns for our clients through active management

### Key Facts

|                                      |                |
|--------------------------------------|----------------|
| ▪ Founded                            | 1964           |
| ▪ Percentage of Female Ownership     | 100%           |
| ▪ Number of Employees                | 171            |
| ▪ Number of Investment Professionals | 57             |
| ▪ Female/Minority Portfolio Managers | 50%            |
| ▪ Assets Under Management            | \$22.8 Billion |

*The investment organizations that will be successful in the future will be focused boutiques with a clear culture, a strong tradition of excellence, and the capability to compete, like David versus Goliath, on their own terms, in chosen battlefields.*

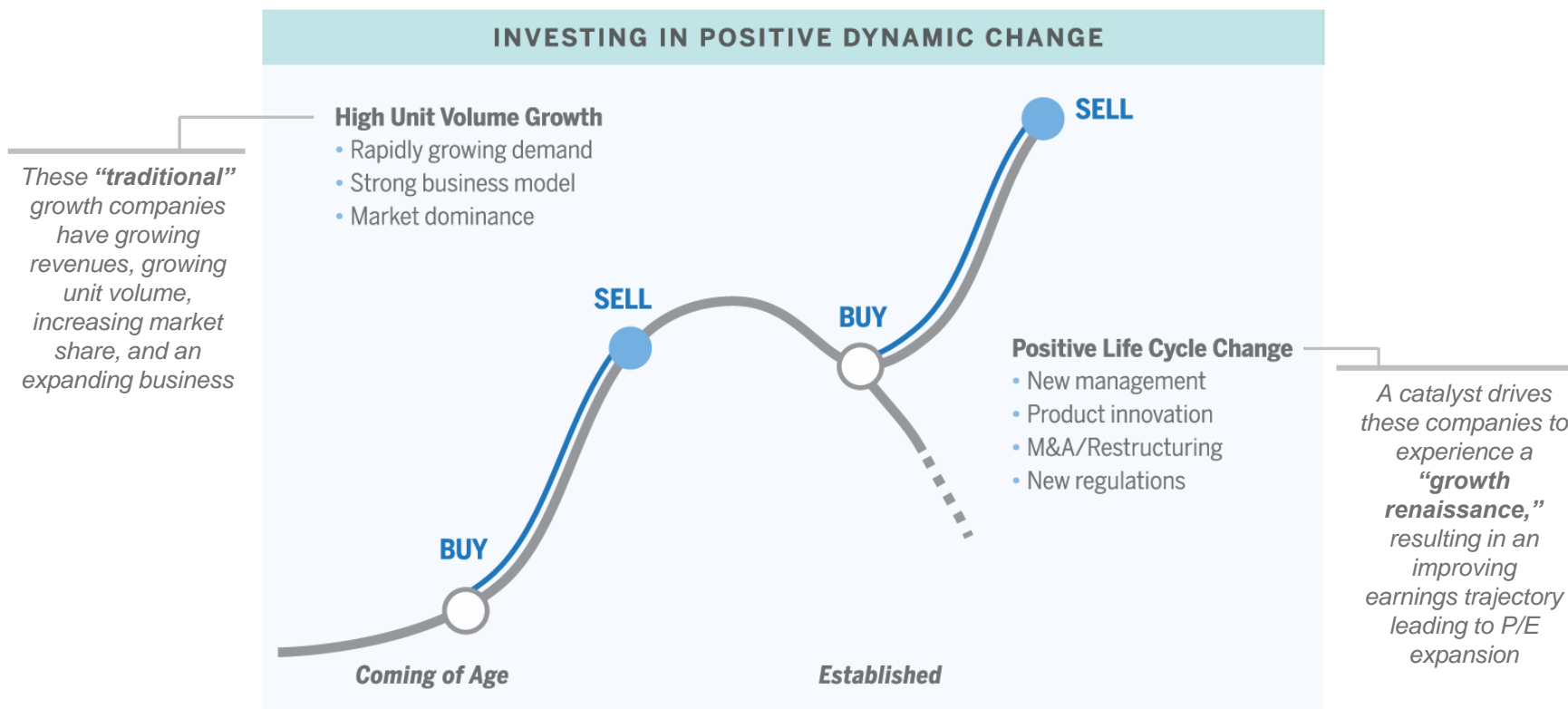
**–Daniel C. Chung, CFA**

Chief Executive Officer  
Chief Investment Officer



# Alger's Investment Philosophy

- We believe companies undergoing **Positive Dynamic Change** offer the best investment opportunities for our clients
- Our competitive edge is identifying these companies and **capitalizing** on the change before it is recognized by the market
- We embrace change found in “**traditional**” growth companies and in companies experiencing a “**growth renaissance**”



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