A Compelling Case for Mid Cap Equities

We believe mid cap stocks present a unique risk-return profile that combines the growth potential of small caps with the stability of large caps. Yet the asset class is easy to overlook. Mid caps represent roughly 20% of U.S. equity market capitalization but only about 8% of U.S. equity fund assets, an underallocation we believe deserves reconsideration.

In our view, the mid cap investment case rests on three pillars:

1. Mid cap remains a less efficient market, one where active management has historically added value.
2. Mid caps have grown earnings faster than large caps for a quarter century, and consensus expects free cash flow growth to extend that advantage, aided by a capital spending cycle of historic scale for artificial intelligence (AI) infrastructure that is increasingly landing in the middle of the market.
3. Mid caps trade at a meaningful price-to-earnings (P/E) discount to large caps, and that gap has begun to close as investors take notice.

Fertile Ground for Active Management

Over the past decade, the median active manager in U.S. mid cap equities delivered annualized alpha of 0.92%, over three times the 0.28% earned by the median large cap manager (see Figure 1).

We believe the difference reflects a less efficient market. Mid cap managers can choose from a wider set of potentially mispriced securities, and they typically get better access to company management, which supports deeper due diligence. Additionally, there is relatively low sell-side coverage. The average mid cap stock is followed by about half as many analysts as the average large cap (see Figure 2). With less coverage, we believe dislocations between price and fundamentals are more likely to develop. For the long-term investor, these dislocations can create attractive entry points into businesses that may compound faster than the broader market. When positive developments do emerge, under-followed stocks can reprice rapidly. Earnings surprises and M&A activity tend to draw broad investor attention, closing the gap between price and fundamentals.

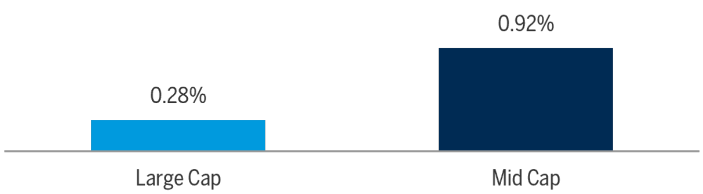
The same logic might seem to favor small caps, which have even less sell-side coverage. But inefficiency alone does not generate excess returns. Mid caps have historically delivered superior risk-adjusted returns, whether measured by the Sortino ratio, which evaluates returns against downside volatility, or the Treynor ratio, which evaluates returns against market risk (see Figure 3).

Faster Growth Potential Than Large Caps

The growth potential of mid caps can be compelling as they expand their market share, enter new markets, or innovate in their respective industries. Additionally, we believe mid cap companies are generally more agile and can quickly adapt to changing market conditions and capitalize on emerging opportunities.

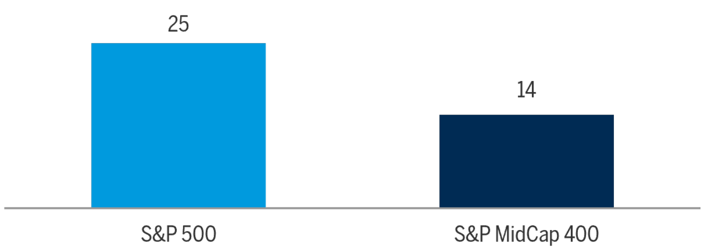
Over the last 25 years, mid-cap companies have delivered meaningfully faster earnings growth than large caps. The earnings

Figure 1: **Median Active Manager Alpha (10-Year Annualized)**



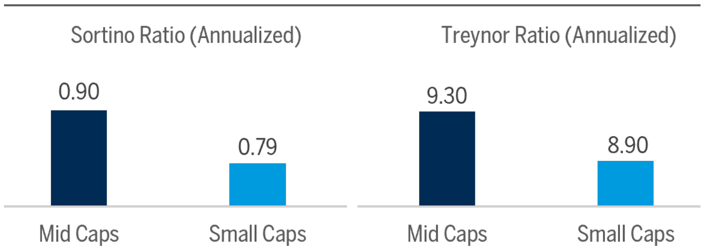
Source: eVestment for the 10-year period ending May 31, 2026. Data is average of Growth, Core and Value median product alpha for large and mid caps. **Past performance is not indicative of future performance.**

Figure 2: **Average Number of Analysts Per Stock**



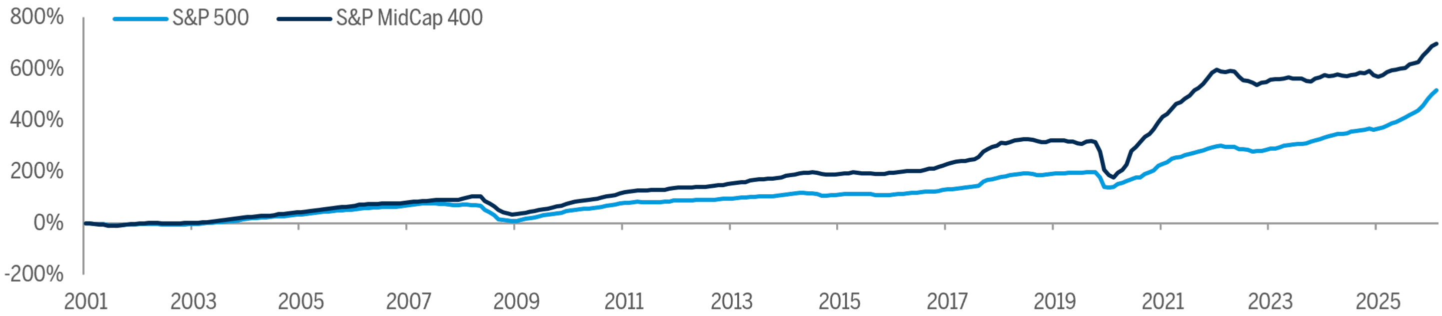
Source: FactSet as of June 30, 2026.

Figure 3: **Risk-Adjusted Return Metrics**



Source: FactSet for the 10-year period ended June 30, 2026. Mid Caps represented by the Russell MidCap Index; Small Caps represented by the Russell 2000 Index. See disclosures for definitions. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

Figure 4: **Cumulative Earnings Per Share Growth**



Source: FactSet as of June 30. 2026.

per share (EPS) for the S&P MidCap 400 Index grew 135 basis points faster annually than the EPS of the S&P 500 Index (see Figure 4). Over the full period, S&P MidCap 400 Index earnings increased 700%, compared with 518% for the S&P 500 Index.

In addition to a structural earnings growth advantage over the past 25 years, mid cap stocks are projected to grow their free cash flow much faster than large cap stocks (see Figure 5). Large caps have captured most of the market's AI enthusiasm in recent years, but we believe a meaningful share of the spending behind that enthusiasm, hundreds of billions of dollars a year on AI infrastructure, flows to mid cap companies. Building AI capacity requires heavy outlays on power, cooling, networking, and electrical equipment, and many mid cap companies occupy these parts of the value chain. These companies may benefit directly as large technology companies continue investing to meet rising AI demand.

Attractive Relative Valuation

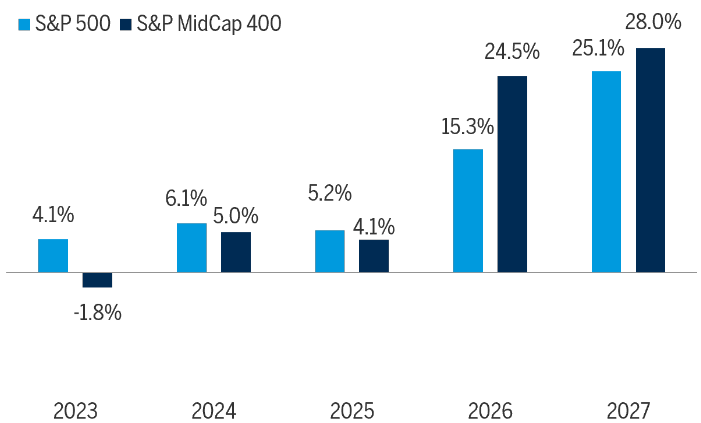
In recent years, U.S. mid cap stocks underperformed large caps, compressing their relative valuation. That gap has begun to close, narrowing from a 29% P/E discount a year ago to roughly 12% today, which suggests investors are starting to take notice (see Figure 6). We believe the remaining discount still understates the earnings and free cash flow growth described above, and in our view, room for further re-rating remains.

At a time when mid-cap companies are expected to outgrow large caps, while still trading at a valuation discount, we believe the asset class offers one of the most compelling opportunities in U.S. equities.

THE ALGER MID CAP GROWTH STRATEGY

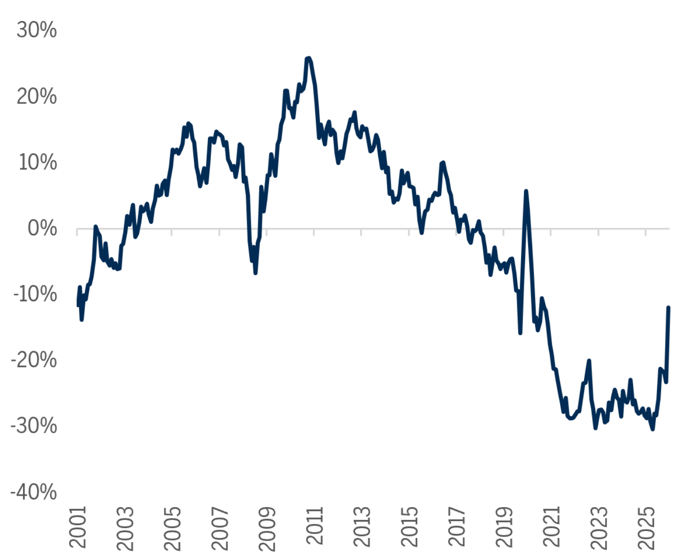
With more than two decades of mid cap investing experience, Brandon Geisler, portfolio manager for the Alger Mid Cap Growth strategy, has an investment philosophy focused on using fundamental research to identify and invest in mid cap stocks with solid growth potential that also demonstrate high quality company fundamentals. Brandon typically

Figure 5: **Free Cash Flow Growth Comparison**



Source: FactSet and Standard & Poor's as of June 30, 2026. The chart depicts the projected calendar year consensus Free Cash Flow per share growth of the S&P MidCap 400 Index and the S&P 500 Index from 2026 through 2027.

Figure 6: **Price-to-Earnings S&P MidCap 400 Relative to the S&P 500**



Source: FactSet. P/E is price divided by earnings over next 12-months, as of June 30, 2026.

pursues high-quality companies with strong balance sheets, consistent revenue growth, high free cash flow and relatively low net debt, as he believes these companies may be better positioned to endure economic downturns and provide greater overall stability.

Brandon's portfolio construction and philosophy reflect a balanced approach with a focus on quality, value, and patience in finding ideal entry points. Within the portfolio, Brandon allocates his positions into three distinct buckets: Aggressive Growers, Growth Compounders and Life Cycle Changers (see Figure 7).

- **Growth Compounders.** (60-80% of holdings) The majority of the portfolio holdings in the strategy, these are companies that have transitioned from early-stage growth to a more stable and diversified business model, demonstrating strong growth prospects. Preferably, they are top players within an industry.
- **Life Cycle Changers.** (0-20%) These are companies undergoing significant transformations. They benefit from factors like new management, innovative products, mergers & acquisitions, and debt restructuring, leading to a potential "growth renaissance" for these companies.
- **Aggressive Growers.** (0-20%) The third category consists of disruptive high-growth oriented companies operating in large total addressable markets. These firms exhibit the potential to achieve rapid growth while still capturing significant market share.

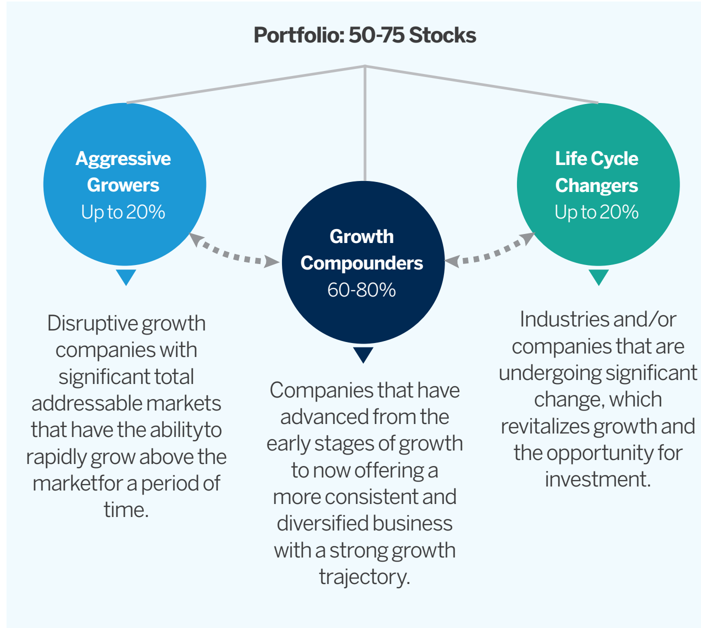
We believe the use of these three flexible buckets in constructing the portfolio creates a pendulum effect that may optimize the strategy's potential to achieve high risk-adjusted returns.

Another key attribute of the portfolio is striving to maintain low turnover. The majority of companies in the portfolio have well-established businesses with relatively low earnings variability in industries such as technology, health care, business and consumer. Our intention is to invest the core of the portfolio in high-quality, long-duration investment ideas. By doing so, we aim to reduce turnover and minimize trading costs, which we believe will ultimately enhance overall returns.

Stock Examples

HEICO Corporation (HEICO) is an example of a Growth Compounder in the portfolio. We believe that HEICO, a rapidly growing technology-driven Aerospace company, is a high quality compounder levered to strong fundamentals in the commercial and military aerospace aftermarket. HEICO builds parts that are PMA approved (FAA Parts Manufacturer Approval), where their distinct approach positions them

Figure 7: **Portfolio Construction**



to leverage a large, underpenetrated total addressable market, creating a competitive moat as they increase market penetration. With 19 of the 20 largest airlines in the world as customers, HEICO appears to be a classic growth compounder with a differentiated business with revenue visibility.

An example of a Life Cycle Changer in the portfolio is **GFL Environmental (GFL)**. GFL is a waste and environmental services business that has been undergoing a transformational change of its balance sheet. GFL went through a period of M&A over the past few years, which included inheriting sizable debt. Since then, GFL has committed to reducing that high leverage by selling off non-core assets and focusing on generating high free cash flow. We believe this reduction in leverage will attract investor attention and that this stock may even become a "Growth Compounder" if GFL continues to delever and focus on their core business.

Natera (NTRA) represents an Aggressive Grower within the portfolio that has been owned for several years and highlights Alger's research efforts. NTRA is a leading diagnostics company focusing on cell-free DNA detection technology for blood-based tests. While starting in reproductive health, the company has utilized its intellectual property and aggressively expanded into both the oncology and organ transplant markets. The company's Signatera MRD (minimal residual disease) platform which identifies the genetic mutations of cancer cells in the patient's blood is quickly being adopted as a best practice within cancer treatment protocols and new products focused on early cancer detection will further advance their market position.

ALGER

What Lies Ahead for the Mid Cap Growth Portfolio?

The core of the Alger Mid Cap Growth portfolio will continue to consist primarily of compounding growth companies that have the potential to offer robust total returns, encompassing organic growth, mergers and acquisitions, and share repurchases. Additionally, the portfolio will place emphasis on investments in high-quality companies across various sectors.

To identify unique opportunities, the portfolio will search diligently for “diamonds in the rough”—high-quality companies in underperforming areas of the market.

Furthermore, the portfolio aims to include companies benefiting from innovations such as AI, industrial automation, power generation and infrastructure. Over the coming years, the strategy seeks to maintain a volatility profile in line with or lower than its benchmark, while also achieving a low overall turnover profile, demonstrating a focus on tax efficiency. As a result, we strive to achieve a relatively lower tracking error, providing investors with a smoother ride and reduced portfolio volatility.

S&P 500®: An index of large company stocks considered to be representative of the U.S. stock market. The S&P MidCap 400® Index is a market capitalization weighted benchmark index made up of 400 companies.

Russell 2000® Index: Measures the performance of the small-cap segment of the U.S. equity universe. Russell Midcap® Index: Measures the performance of the mid-cap segment of the U.S. equity universe. Index performance does not reflect deductions for fees, expenses, or taxes.

The indices presented are provided for illustrative purposes, reflect the reinvestment of dividends and do not assess fees and expenses that would have the effect of reducing returns. Investors cannot invest directly in any index. The index performance does not represent the returns of any portfolio advised by Fred Alger Management, LLC and actual client results might differ materially than the indices shown. **Past performance is no guarantee of future results.**

FactSet is an independent source, which Alger believes to be a reliable source. Investors cannot invest directly in any index. FAM, however, makes no representation that it is complete or accurate. Alger pays compensation to third party marketers to sell various strategies to prospective investors.

Alpha measures the difference between a portfolio’s actual returns and its expected performance, given its level of risk (as measured by beta). Beta measures a portfolio’s sensitivity to market movements relative to a particular index; a portfolio with a beta of 1.00 would be expected to have returns equal to such index. Earnings per share (EPS) is the portion of a company’s earnings or profit allocated to each share of common stock. Free cash flow represents the amount of cash a company generates after operating expenses and capital expenditures, divided by its shares outstanding.

Sortino ratio is a risk-adjusted metric that measures an investment’s return relative to its downside risk.

Treynor ratio is a performance metric that measures how much excess return a portfolio generates for each unit of risk. It’s also known as the reward-to-volatility ratio.

The following positions represent assets under management for the Alger Mid Cap Growth Strategy as of May 31, 2026: HEICO Corp, 1.63%; GFL Environmental, Inc., 1.93%; Natera, Inc, 2.45%.