

The Changing Face of the U.S. Economy

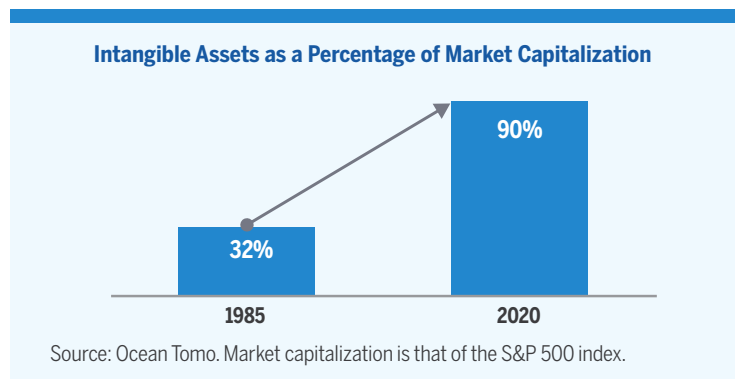
Price-to-book value is the primary characteristic that drives approximately \$4 trillion of growth and value style classification. Unfortunately, we believe this metric is not functioning as intended and may be driving the long-term underperformance of value stocks.

What Is Wrong with Book Value?

More than ever before, companies' market values are driven by intangible assets, such as patents, brands, and R&D (see Figure 1). These assets, such as internally developed artificial intelligence (AI) software, are typically expensed and are not included on companies' balance sheets.

We believe book value, which generally doesn't account for intangible assets, is a less accurate measure of a firm's asset value and its earnings power. This may be driving the poor performance of low price/book stocks as new economy companies—growth companies—have more intangible assets than old economy companies according to the Bureau of Economic Analysis.

Figure 1: Companies' Market Values Now Driven by Intangible Assets

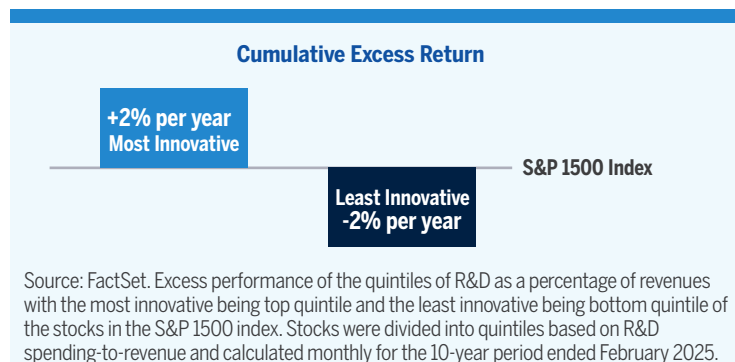


Innovation Has Driven Outperformance

We believe the most significant contributor to this shift is innovation, which usually shows up in the form of intangible assets. In our opinion, innovation is the most powerful force in the economy.

Research shows that the most innovative companies, which may be defined as those companies with a high ratio of annual R&D investment to revenue, have grown their sales and earnings faster than the least innovative companies (see Figure 2).

Figure 2: Innovative Companies Have Outperformed Over the Past Decade

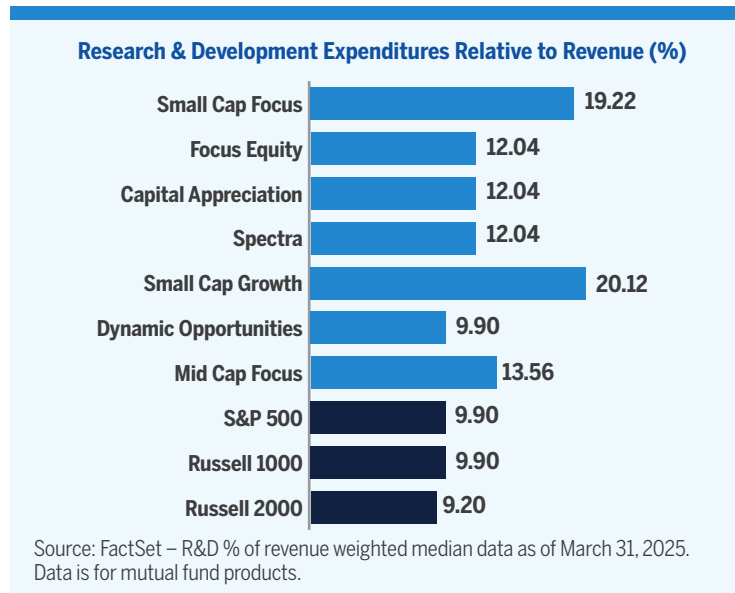


Alger Has Expertise Investing in Innovation

We believe we are seeing the changing face of the U.S. economy as companies shift from tangible to intangible assets. In our view, this shift underscores the accelerating pace of innovation, reshaping industries through widespread digitalization, sustained growth in cloud computing, and ongoing advancements in AI that could potentially boost economic productivity over the long run. Our emphasis on innovation, as measured by R&D expenditures relative to revenue in our portfolios' holdings, is evident across our product lineup (see Figure 3).

Our team of analysts research companies to value what may—or may not be—included on their financial statements. We believe our original, bottom-up research process can help us find growth stocks that should benefit from innovation, while avoiding value stocks that appear cheap and may simply be victims of change.

Figure 3: Emphasis on Innovation Across Our Product Line-up



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.

Unlock Your Growth Potential.SM

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