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FOR IMMEDIATE RELEASE

Investors May Be Ignoring Link Between Innovation and Historical Outperformance, Study Finds

NEW YORK, September 20, 2021 – Investors have a valuable opportunity to potentially improve long-term risk-adjusted returns by taking better advantage of the compelling link between corporate innovation and historical outperformance, according to a new Greenwich Report produced in partnership with Alger.

The report presents feedback from 138 interviews with institutional investors, financial advisors, intermediaries and consultants across the United States who are responsible for overseeing assets in excess of $18 trillion. Among the key findings is although 95% of investors recognize the correlation between innovation and historical outperformance, few of the participants allocate directly to innovation. In fact, many investors lack any dedicated framework for measuring innovation in their investment processes.

"Most investors do not target innovation directly because they simply do not know how or where to start," says Davis Walmsley, head of client relationships at Coalition Greenwich and author of *The Innovation Advantage? Harnessing the Power of the New Factor*.

Innovation's Historical Outperformance

The report also examined and identified a powerful link between innovation and historical outperformance. Using the ratio of annual R&D investment to revenue to measure innovation, over the past 45 years, companies in the top quintile in R&D/revenue outperformed bottom quintile companies by 100 basis points (bps) per annum. In more recent years, the impact of innovation on performance has been much greater, as companies in the top quintile in R&D/revenue outperformed the market by 560 bps in annual returns as compared to bottom quintile companies, which have underperformed the market over the past 10 years.

Implementing Innovation

Investors are advised to use the concept of "Innovation Intensity" to assess the impact of innovation on their portfolios. One example of an accessible metric for Innovation Intensity is R&D as a percent of revenue. Investors using this measure are advised to aim for an Innovation Intensity greater than that of the broad market. But to maximize innovation's alpha and diversification potential, investors are advised to look beyond individual proxies like R&D spending.

“Capturing the full return premium associated with innovation requires a more comprehensive investment framework that identifies companies with proven, repeatable processes for cultivating and monetizing innovation,” says Brad Neuman, director of market strategy at Alger. “We believe that investors may be well served by evaluating the Innovation Intensity of their portfolios and allocating to managers with proven track records in order to harness the power of innovation.”

The study analyzes the risk and return profiles of innovative companies, which may be defined as those companies with a high ratio of annual R&D investment to revenue, and provides guidance on how investors can implement innovation as an investment factor in their portfolios.

Study Methodology

A 2021 Greenwich Associates study of institutional investors, financial advisors, intermediaries and consultants evaluated perceptions of innovation and the role that innovation plays in portfolios. Greenwich Associates interviewed 138 key decision makers in the United States at over 100 financial institutions overseeing assets in excess of $18 trillion.

The Greenwich Associates 2021 *The Innovation Advantage? Harnessing the Power of the New Factor* paper was sponsored by Fred Alger Management, LLC (“FAM”). FAM is not affiliated with Greenwich Associates, LLC or its affiliates.

About Alger

Founded in 1964, Alger is widely recognized as a pioneer of growth-style investment management. Headquartered in New York City with affiliate offices in Boston and London, Alger provides U.S. and non-U.S. institutional investors and financial advisors access to a suite of growth equity separate accounts, mutual funds, and privately offered investment vehicles. The firm’s investment philosophy, discovering companies undergoing Positive Dynamic Change, has been in place for over 50 years. Weatherbie Capital, LLC, a Boston-based investment adviser specializing in small and mid-cap growth equity investing is a wholly-owned subsidiary of Alger. For more information, please visit www.alger.com.

Risk Disclosures: Investing in the stock market involves risks, including the potential loss of principal. Growth stocks may be more volatile than other stocks as their prices tend to be higher in relation to their companies’ earnings and may be more sensitive to market, political, and economic developments. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness such as COVID-19 or other public health issues, recessions, or other events could have a significant impact on investments. Active trading may increase transaction costs, brokerage commissions, and taxes, which can lower the return on investment.

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. Companies exploring new technologies may face regulatory, political or legal challenges that may adversely impact their competitive positioning and financial prospects. Also, developing technologies to displace older technologies or create new markets may not in fact do so, and there may be sector-specific risks as well. As is the case with any industry, there will be winners and losers that emerge and investors therefore need to conduct a significant amount of due diligence on individual companies to assess these risks and opportunities.

This material is not meant to provide investment advice and should not be considered a recommendation to purchase or sell securities.

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