

BEST ETFs & MUTUAL FUNDS

Award-Winning Alger Fund Applauds Profitable 'Positive Dynamic Change'

Q&A

BY ADAM SHELL
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Change is good. But seeing “positive dynamic change” in companies is even better. That’s the stock-picking motto of Alger Focus Equity (ALAFX), a 2025 IBD Best Mutual Funds award winner.

Being on the right side of the innovative changes remaking the economy is the formula for success for this top-performing mutual fund.

“Oftentimes, when there’s change, the market doesn’t realize what the opportunity is in that change,” said Alger Focus Equity co-manager Ankur Crawford. “Our mandate is to find that change where we can have a differentiated viewpoint relative to the market over not just a quarter or a year, but over a long arc of time.”

The strategy has delivered plump market-beating returns to investors over all time periods.

Top-performing \$1.9 billion Alger Focus Equity has topped its fund peers in the past one-, three-, five- and 10-year periods. In 2024, the fund’s 51.77% total return bested 99% of its peers, according to fund tracker Morningstar Direct.

And this top mutual fund’s 15.1% average annual return over the past 10 years topped 92% of funds in the large-growth category. A \$100,000 investment in Alger Focus Equity 10 years ago would be worth over \$408,000 today.

IBD caught up with co-managers Crawford and Patrick Kelly to learn more about their invest-



Alger Fund managers Patrick Kelly and Ankur Crawford have a rigorous process to find top growth stocks.

ment philosophy.

IBD: What traits do you look for in a growth stock?

Ankur Crawford: We look for two pillars of growth. One is high unit volume growth, a typical growth company that has high top-line (sales) growth and is a market disrupter. These are companies that dominate their market and are typically taking market share.

IBD: What’s the second pillar?

Crawford: The other is what we call positive lifecycle change, which represents companies that have gone through their growth cycle and grown into their markets and are now facing a question mark on how they should grow from here. They either have a new product, new management team that reinvigorates the busi-

ness model or they start to drive growth in ways that pivot the business model a little bit.

IBD: The fund only holds up to 50 stocks. Why?

Patrick Kelly: What we’re looking for are the best 45 to 50 names to put into the portfolio.

IBD: What are the big secular investment themes you’re buying into?

Kelly: From a high level, we continue to believe that we’re in the midst of one of the most innovative times in history. The pace of innovation continues to accelerate. This was occurring before the recent inflection in artificial intelligence. And now generative AI (which creates new content based on patterns learned from existing content) is a massive accelerant to the pace of innovation.

We believe all this innovation will continue to create winners and losers across sectors over the next five to 10 years.

IBD: What themes are driving change?

Kelly: You have the continued trends of the internet, with mobile internet, e-commerce, social commerce and digital advertising, which continue to drive a significant amount of change. You have cloud computing, digital transformation and automation. And then you have artificial intelligence, which we think will be one of the most transformative technological advances in history.

IBD: The AI theme extends far and wide, doesn’t it?

Kelly: There’s a number of subthemes under AI, such as all the computing (power) that AI

requires, and all the power and infrastructure and data center spend that it requires. AI is also helping to accelerate some of these other major themes, such as cloud computing and digital transformation. And, you know, companies want to digitize their business and then apply AI to it to more effectively and efficiently run their business.

IBD: Are there AI parallels to the 2000 tech bubble?

Crawford: We think this is very different. Not that we can't eventually enter a bubble, but that comes at valuation ranges that are going to be significantly different (and much higher) than they are today.

IBD: How is AI different?

Crawford: Pat and I have been talking about AI for seven or eight years. We've seen this coming. But why didn't it come sooner? Because we were computing constrained, and it didn't make sense to actually have AI come to market, because it was really expensive to bring these innovations to market.

IBD: What changed things?

Crawford: Nvidia (NVDA) democratized computing. They made the compute layer so accessible and capable that it's spurring this innovation. The main bottleneck for AI has really been (lack of) computing (power). And that bottleneck is being solved. So, all the innovation that comes behind it will be quicker to come than it has historically.

And if you look at valuations, they don't seem egregious to us. Nvidia today probably trades at like a 20 (price-earnings) multiple on the Street numbers. So, the valuations aren't sky-high. There are some exceptions, but we don't think this is akin to a bubble. The valuations have to be in a different stratosphere if we want to call it a bubble.

IBD: What AI plays do you like?

Kelly: One position would be AppLovin (APP). We initiated a position in early 2024 recognizing that the company was undergoing significant change, innovating at a rapid pace, and would be a significant beneficiary of one of the biggest growth areas: AI.

IBD: What other stocks do you like?

Kelly: Talen Energy (TLN) is an

example of a big lifecycle-change type story. Change at these lifecycle-change companies can come about through a new product introduction, new management or acquisition that change the dynamic of a company. Ideally, we're typically looking for earnings acceleration coupled with multiple expansion created by the change.

IBD: Utilities as growth stocks: Who would have foreseen that?

Kelly: I've been a portfolio manager for the past 20 years, and I don't think we've ever invested in a utility-type name until recently. But that's what's made our investment philosophy of investing in change ideally suited for this environment.

IBD: What's an example?

Crawford: Vertiv Holdings (VRT). It's the only publicly traded pure-play power and thermal management supplier for data centers. Servers in data centers get hot, and Vertiv's cooling systems and products cool the data centers. What's interesting is that Vertiv is in the bucket of positive lifecycle change.

IBD: In what way?

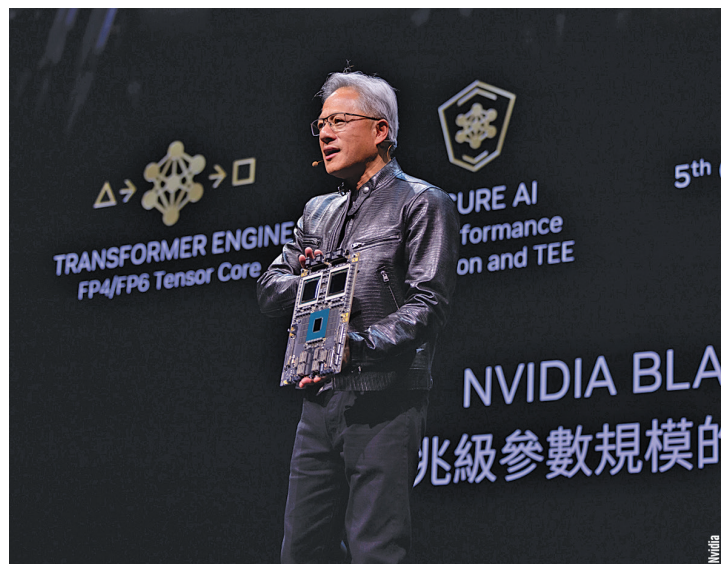
Crawford: It was basically a mid-single-digit grower that really was at the whim of the overall data center market, which was under pressure over the last five years before AI.

But now, as power management and thermal management becomes more and more difficult, Vertiv has a natural advantage in the market with its liquid cooling (solution). As higher-performance chips are rolled out, they will necessitate more of this liquid cooling in data centers, which is going to drive earnings growth well in excess of the revenue growth. Their margins are seen expanding from around 19% or 20% to their long-term target of 25%, which will (boost) earnings.

We really love ideas like this, where the company is in control of their own fate in a market that is expanding for them, and they have operating profit growth.

IBD: Any non-AI picks?

Crawford: A name that is new to the portfolio is Sea Ltd. (SE), a Southeast Asian consumer internet company that basically has three verticals: e-commerce, financial services and video gam-



Nvidia CEO Jensen Huang is pushing the innovation needed for AI.

ing. It was initially known for its video games. But that is not really what we own it for. We own it for the e-commerce and financial services part of the business.

Today, they have about a 40% share of the e-commerce business in their largest markets, like Indonesia. They also have an interesting flywheel in that they've really invested in logistics. About 50% of their volume runs through their own logistics, which gives them a structural advantage relative to the rest of the players in the market, which is allowing them to grow from 40% share to something higher than that.

IBD: So, Sea is a market-share-gainer play?

Crawford: We think they gain share in the market at a rate of 1% to 2% every year. The e-commerce story in Southeast Asia is more nascent. And they're the 800-pound gorilla in the market.

The financial services aspect of Sea Ltd. is also very interesting because the population in Southeast Asia is underbanked and underserved from a financial services aspect. So, they're basically pulling customers onto their platform using their financial services. There's really interesting growth potential here.

We also like the fact that it's not related to any of the tariff noise that's occurring here in the U.S. It's basically a high-unit-volume growth company in a market that's burgeoning.

IBD: Do you see tariff uncer-

tainty in the U.S. as a big risk?

Crawford: The awareness of tariffs in the market right now is high. The market has exhibited a lot of volatility. And, depending on how these tariffs are implemented, it will impact a lot of things. Does it have great risk for the market? Does it throw us into a significant recession? I think that the administration doesn't want to throw us into a recession, and so I don't feel like it's a great risk anymore, in part, because now it's top of mind for the market.

But we're not out of the woods yet. Every day we get closer to, hopefully, some clarity, so (the market) and CEOs can start moving on. So, the administration kind of needs to hurry up and get on with it so that companies can start to implement what they need to do for their growth plans.

IBD: Can uncertainty equal opportunity?

Kelly: Some of these stocks that we've mentioned have had significant sell-offs over the past couple of months that we've been able to take advantage of. So, the near-term uncertainty can create opportunities to buy high-quality companies at lower prices.

IBD: What's your take on the Magnificent Seven stocks?

Crawford: The performance of the Magnificent Seven over the last year has been pretty bifurcated. Things are changing so fast that even the competitive positioning of each of these seven stocks is changing pretty fast.

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Average Annual Total Returns (%) (as of 3/31/25)

		Ticker	1 Year	3 Years	5 Years	10 Years	Since Inception
Alger Focus Equity Fund							
Class A (Incepted 12/31/12)	Without Sales Charge	ALAFX	15.38	12.31	19.35	14.98	16.58
	With Sales Charge		9.33	10.32	18.07	14.36	16.07
Class Z (Incepted 12/31/12)		ALZFX	15.76	12.67	19.73	15.35	16.97
Russell 1000 Growth Index		—	7.72	10.09	20.08	15.12	16.37
Total Annual Fund Operating Expenses by Class			Without Waiver: A: 0.95% Z: 0.64%				
(Prospectus Dated 2/28/2025, unless otherwise amended)			With Waiver: — 0.63%				

Performance shown is net of fees and expenses. Only periods greater than 12 months are annualized.

The Board of Trustees has approved a proposal to change the Fund from a diversified company to a non-diversified company and to eliminate the Fund's related fundamental investment policy on diversification, subject to shareholder approval at a meeting of shareholders on or about May 5, 2025.

Prior to October 15, 2018, the Fund followed its current investment strategy, with the same portfolio managers, under the name "Alger Capital Appreciation Focus Fund."

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