

ALGER

ALGER CAPITAL APPRECIATION FUND RECEIVES BRONZE

► Morningstar Analyst Rating



Alger is a signatory to the PRI and carbon neutral.

Inspired by Change, Driven by Growth.

Alger Capital Appreciation Z ACAZX

Still a compelling large-growth option.

Morningstar's Take ACAZX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Bronze

Morningstar Pillars

Process		Above Average
Performance	—	—
People		Above Average
Parent		Average
Price	—	—

Role In Portfolio

Core

Fund Performance

Year	Total Return (%)	+/- Category
YTD	-11.08	-1.39
2021	17.93	-2.52
2020	42.08	6.22
2019	33.62	1.72
2018	-0.66	1.43

Data through 1-31-22

2-03-22 | by Claire Butz

Alger Capital Appreciation's time-tested team and approach earn the strategy a Morningstar Analyst Rating of Bronze across all share classes except the pricier C shares, which warrant Neutral.

This strategy's managers are industry and firm veterans. Patrick Kelly joined Alger in 1999 and took this strategy's helm in September 2004. The strategy has benefited from Kelly's stable leadership and 24 years of industry experience. Ankur Crawford, who joined Alger in 2004, rose through the firm's ranks and became a comanager here in 2015. She and Kelly make decisions together across sectors, but she has a deep history with technology stocks. Alger CEO and CIO Dan Chung joined the manager lineup in February 2021 following an announcement that Crawford was departing the firm. When she subsequently decided to stay on board, Chung continued in his comanager role. He focuses primarily on small- and mid-cap names. The managers receive support

from an experienced group of five dedicated analysts and Alger's central analyst team.

The managers have consistently sought out winning growth firms. The team looks for companies poised for growth in one of two stages. Some are emerging firms with strong business models, increasing product demand, and growing market share. Others are established businesses undergoing changes that could spur growth, such as new management or product advancements. The managers distinguish the portfolio with smaller stakes in benchmark behemoths such as Apple AAPL and Meta Platforms META, while betting on out-of-benchmark stocks like Sea Limited. The managers will also invest in private firms, but they are selective and have always kept such stakes small.

After a solid 2020, the strategy's aggressive growth posture faced headwinds in 2021. The strategy's Z shares gained 17.9% over the 2021 calendar year versus the Russell 1000 Growth Index's 27.6% rise. Technology and consumer discretionary stocks were hit hardest, with names such as Block SQ and Flutter Entertainment PDYYP posting losses over the year. But even after a challenging period, the strategy has still topped 94% of large-growth Morningstar Category peers over Kelly's tenure through the end of 2021.

Process Pillar Above Average | Claire Butz 01/26/2022

This team's skilled use of Alger's firmwide growth approach to investing merits an Above Average Process rating.

Like their colleagues, managers Patrick Kelly, Ankur Crawford, and Dan Chung look for companies that are poised for growth in one of two stages. Some are emerging firms with strong business models, increasing product demand, and

growing market share. Others are established businesses undergoing beneficial changes such as new management or product advancements.

The managers then turn to their analyst team for deeper research. The analysts generate one-, three-, and five-year target prices for each company, modeling earnings and cash flows out five years. The team picks stocks it believes have the most upside potential relative to their price targets, and the managers have latitude to deviate from the Russell 1000 Growth Index's sector weightings. They are willing to pay up for growth but aren't insensitive to valuations. The group monitors risk/reward trade-offs and often trims positions once they come within 10% of the price targets, a discipline that contributes to the portfolio's above-average portfolio turnover. In 2021, turnover on the strategy's A shares was 79%, more than double the actively managed large-growth peer median of 37%.

The managers are light on benchmark behemoths. Their allocation to the Russell 1000 Growth Index's five largest weightings (Apple AAPL, Microsoft MSFT, Amazon.com AMZN, Alphabet GOOG, and Tesla TSLA) totaled 31.6% in October 2021 versus the index's 37.5%. The managers determine position sizes based on each holding's risk/reward profile and valuation. In October 2021, the median bet size was 0.4 percentage points. The managers' greatest overweighting that month was its 4.0% allocation to Adobe ADBE (versus the benchmark's 1.3%), while the team's lighter position in Apple was its greatest underweighting. The top-10 stock consumed 4.2% of assets, but that allocation was still 6.0 percentage points less than the benchmark's. The managers have deviated meaningfully from the benchmark's sector allocations at times, but weightings have remained within about 5 percentage points over the trailing year through October.

The managers have also increased their allocation to mid-cap stocks of late. Mid-caps made up roughly 14.8% of the October 2021 portfolio versus 1.2% just two years prior. Indeed, the strategy's average market capitalization rang in at \$265 billion in October 2021, below the benchmark's \$325 billion.

The fund may invest in private firms, but the managers are selective and keeps such stakes small. As of October 2021, the portfolio had a 0.1% position in Chime Financial.

Performance Pillar | Claire Butz 01/26/2022

This strategy has had a competitive record over longtime manager Patrick Kelly's tenure. Since Kelly took the reins in September 2004 through December 2021, the strategy's Z shares gained 14.9% annualized, topping the Russell 1000 Growth Index's 13.3% and typical large-growth Morningstar Category peer's 11.2%. The strategy's aggressive growth profile resulted in more volatility (as measured by standard deviation) than both its benchmark and typical rival over that period, but risk-adjusted results were still competitive.

Kelly and comanager Ankur Crawford posted solid results in 2020's tumultuous market conditions. Over the calendar year, the strategy gained 42.1% versus the benchmark's 38.5% and the typical peer's 35.9%. Although the strategy is typically vulnerable in market drawdowns, it held up a bit better than the bogy in the first-quarter market plunge and outpaced the benchmark in the subsequent rally. Holdings such as Pinterest PINS and Danaher DHR among the top performers.

The strategy's relative results were less compelling in 2021. The fund gained 17.9% over the year versus the benchmark's 27.6% rise. Technology and consumer discretionary stocks were hit hardest, with names such as Block SQ and Flutter Entertainment PDYPY posting losses over the year. Although the strategy trailed the majority of peers over the calendar year, results were in line with many other aggressive growth peers, and Kelly's long-term record still stands strong.

People Pillar ● Above Average | Claire Butz 01/26/2022

Proven managers and their experienced supporting cast earn this strategy an Above Average People rating.

Since taking the helm here and at Alger Spectra ASPZX (which can short stocks, unlike this strategy) in September 2004, longtime manager Patrick Kelly has successfully executed the firm's aggressive growth approach. Kelly has comanaged with Ankur Crawford since 2015. She joined Alger in 2004 and rose through the firm's analyst ranks, ultimately leading the central analyst team's tech group. The strategy benefits from her deep experience in the tech sector, especially given its typically large technology stake. Alger CEO and CIO Dan Chung joined the manager lineup in February 2021 following an announcement that Crawford was departing the firm. When she subsequently decided to stay on board, Chung continued in his comanager role. He focuses primarily on small- and mid-cap names.

The managers lean on an experienced team of five analysts for their suite of funds. Each averages 19 years of industry experience. Kelly and Crawford also regularly draw upon the firm's central analyst team, especially when analyzing names in the portfolio's lighter sectors such as industrials.

Kelly invests at least \$2.5 million total across his three strategies, and Crawford more than \$700,000. Chung has at least \$600,000 invested here and in Alger Spectra.

Parent Pillar ● Average | Tony Thomas, Claire Butz 07/20/2020

Fred Alger Management is home to some strong strategies, but a lot is riding on them. The firm earns an Average Parent rating.

Like other investment boutiques, Alger faces industry challenges from investors' preference for passive investing as well as fee pressure. Alger has responded by differentiating its signature growth approach by further concentrating some of its existing equity strategies or launching new

focused options. Through that process it has brought on high-conviction managers, including Amy Zhang of Silver-rated Alger Small Cap Focus in 2015, Weatherbie Capital in 2017, and two managers from Redwood Investments in 2018. The firm created Z shares for its funds in 2010; they are cheaper than other Alger share classes but come in at average compared with the competition.

The firm's success rides on a few mandates, including Zhang's and flagship Alger Spectra, rated Bronze and run by Patrick Kelly. Zhang and Kelly handle about half of the firm's nearly \$25 billion in assets under management, and though the firm is building dedicated investment teams alongside its central analyst pool, key-manager risk exists. Most Alger strategies have benefited from a market that has favored its style over the past five-plus years, but some strategies, such as Alger's international offerings, have struggled and endured notable outflows.

Price Pillar | Claire Butz 01/26/2022

It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's middle quintile. That's not great, but based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we think this share class will still be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Bronze.

This article reprint, originally published by Morningstar on January 26, 2022, is considered sales literature only for the Alger funds mentioned and not for any other products shown. Morningstar is an independent publication and the performance and ratings cited in the article do not represent the experience of any individual investor. For the period ending December 31, 2021, the Alger Capital Appreciation Fund (the "Fund") returned the following:

Alger Capital Appreciation Fund Average Annual Total Returns (%) (as of 12/31/21)

	1 Year	3 Years	5 Years	10 Years	Since Inception
Class Z (Incepted 12/29/10)	17.93	30.82	23.98	19.02	17.05
Morningstar Category Average (Large Growth)	20.45	29.54	22.39	17.65	—
Russell 1000 Growth Index	27.60	34.08	25.32	19.79	18.08
Morningstar Percentile Rank (Large Growth) Based on Total Returns	71% 868/1237	38% 438/1116	33% 340/1012	24% 178/768	—
Total Annual Fund Operating Expenses (Prospectus Dated 3/1/21)	0.84%				

Fred Alger Management, LLC has contractually agreed to waive fees or to reimburse Fund expenses (excluding acquired fund fees and expenses, dividend expense on short sales, borrowing costs, interest, taxes, brokerage and extraordinary expenses) through February 28, 2023 to the extent necessary to limit the annual operating expenses of Class Z to 0.85% of the class's average daily net assets. This expense reimbursement may only be amended or terminated prior to its expiration date by agreement between Fred Alger Management, LLC and the Fund's Board of Trustees, and will terminate automatically in the event of termination of the Investment Advisory Agreement. Fred Alger Management, LLC may, during the term of the contract, recoup any fees waived or expenses reimbursed pursuant to the contract to the extent that such recoupment would not cause the expense ratio to exceed the stated limitation in effect at the time of (i) the waiver or reimbursement and (ii) the recoupment by Fred Alger Management, LLC, after repayment of the recoupment is taken into account.

Only periods greater than 12 months are annualized.

Class Z shares are available to certain investors with an initial investment minimum of \$500,000. Please consult the prospectus for more information.

The performance data quoted represents past performance, which is not an indication or a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. Performance figures assume all distributions are reinvested. For performance current to the most recent month end, visit www.alger.com or call 800.992.3863.

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The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Morningstar Rating is for the Z share class only; other classes may have different performance characteristics. Alger Capital Appreciation Fund Class Z was rated 3, 4 and 4 Star(s) for the 3-, 5-, and 10-year periods among 1,116, 1,012, and 768 Large Growth funds as of 12/31/21.

The Morningstar Analyst Rating is not a credit or risk rating. It is a subjective evaluation performed by the manager research analysts of Morningstar. Morningstar evaluates funds based on five key pillars, which are process, performance, people, parent, and price. Analysts use this five pillar evaluation to determine how they believe funds are likely to perform over the long term on a risk-adjusted basis. They consider quantitative and qualitative factors in their research, and the weighting of each pillar may vary. The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. A Morningstar Analyst Rating of Gold, Silver, or Bronze reflects an Analyst's conviction in a fund's prospects for outperformance. Analyst Ratings are continuously monitored and reevaluated at least every 14 months. If a fund receives a positive rating of Gold, Silver, or Bronze, it means Morningstar analysts think highly of the fund and expect it to outperform over a full market cycle of at least five years. Gold: Best-of-breed fund that distinguishes itself across the five pillars and has garnered the analysts' highest level of conviction. Silver: Fund with advantages that outweigh the disadvantages across the five pillars and with sufficient level of analyst conviction to warrant a positive rating. Bronze: Fund with notable advantages across several but perhaps not all of the five pillars—strengths that give the analysts a high level of conviction. Neutral: Fund that isn't likely to deliver standout returns but also isn't likely to significantly underperform, according to the analysts. Negative: Fund that has at least one flaw likely to significantly hamper future performance and that is considered by analysts an inferior offering to its peers.

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As of December 31, 2021, the securities mentioned in this reprint represented the following as a percent of Alger's assets under management: Microsoft Corp., 6.19%; Amazon.com, Inc., 4.19%; Apple Inc., 3.29%; Meta Platforms, 0.37%; Alphabet Inc., 2.96%; Telsa, Inc., 1.84%; Adobe, Inc., 1.33%; Block Inc., 0.42%; Pinterest, Inc., 0.02%; Chime Financial, Inc., 0.06%; Flutter Entertainment PLC, 0.02%; Danaher Corporation, 1.26%; and Sea LTD., 0.14%.

Before investing, carefully consider the Fund's investment objective, risks, charges, and expenses. For a prospectus and summary prospectus containing this and other information or for the Fund's most recent month-end performance data, visit www.alger.com, call (800) 992-3863 or consult your financial advisor. Read the prospectus and summary prospectus carefully before investing. Distributor: Fred Alger & Company, LLC. NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.