MORNINGSTAR MEDALISTS

Investing in Positive Dynamic Change

Inspired by Change, Driven by Growth.
Sporting a newly minted Bronze medal, the Alger Small Cap Focus Fund joins the ranks of Alger Morningstar medalists Alger Spectra Fund and Alger Capital Appreciation Fund.
Three Medalists – One Philosophy

Sporting a newly minted Bronze medal, the Alger Small Cap Focus Fund joins the ranks of Alger Morningstar medalists Alger Spectra Fund and Alger Capital Appreciation Fund. Enclosed are reprints of the Morningstar Analyst Reports.

Each of our three Morningstar medalists is grounded in Alger’s growth style of investing, which Alger has been committed to since the firm was founded in 1964. We believe that the best way to uncover and evaluate growth companies is through intensive, fundamental, proprietary investment research. At Alger, we believe companies undergoing Positive Dynamic Change offer the best investment opportunities. By Positive Dynamic Change, we mean those companies experiencing High Unit Volume Growth or Positive Life Cycle Change.

**Alger Small Cap Focus Fund**
Primarily invests in a focused portfolio of approximately 40 to 50 U.S. small cap growth holdings, generally concentrating in sectors undergoing dynamic change, like healthcare and technology.

Amy “is off to a good start at Alger using the same benchmark-agnostic, low turnover strategy.”
—Morningstar analyst Alec Lucas 11/14/2016

**Alger Spectra Fund**
Primarily invests in a portfolio of U.S. large cap growth stocks, focusing on companies experiencing Positive Dynamic Change. Has the flexibility to short up to 10% of assets.

“Since taking the helm here and at Alger Capital Appreciation ALARX in late September 2004, his first shot at portfolio management, Kelly has executed the firm’s aggressive approach with great success.”
—Morningstar analyst Alec Lucas 1/4/2017

**Alger Capital Appreciation Fund**
Primarily invests in a portfolio of U.S. large cap growth stocks, focusing on companies either experiencing high unit volume growth, or a positive life cycle change.

“Kelly and Crawford draw support from roughly 20 analysts who divide coverage based on global sectors and regions.”
—Morningstar analyst Alec Lucas 1/4/2017

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Alger Small Cap Focus Z AGOZX

A capable manager and a nimble asset base.

Morningstar's Take AGOZX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Bronze

Morningstar Pillars
Process Positive
Performance Neutral
People Positive
Parent Neutral
Price Negative

Role In Portfolio
Supporting

Fund Performance AGOZX

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Data through 6-30-17

2-15-17 | by Alec Lucas, Ph.D.

Alger Small Cap Focus’ promise merits a Morningstar Analyst Rating of Bronze.

Manager Amy Zhang is new to the fund, as of early 2015, but not to small-cap stocks. Before joining Alger and taking over here, Zhang was a key contributor to Brown Capital Management Small Company BCSXK. It had one of the best risk-adjusted records in the small-growth Morningstar Category during her 12-plus years and handily beat the Russell 2000 Growth Index.

Zhang is using the same proven approach here. She focuses on firms with operating revenues of $500 million or less and looks for those with good prospects for long-term growth because their differentiated products or services satisfy emerging needs and enable expansion into related markets. Top-holding Cantel Medical CMN became a leader in infection prevention by using a profitable foothold in dialysis treatment to build businesses in water purification and endoscopy.

In running the fund’s roughly 40- to 50-stock portfolio, Zhang doesn’t try to match the benchmark’s sector weightings. The fund tends to tread lightly in consumer and industrials stocks while keeping a massive 80%-87% combined stake in healthcare and tech, versus 47%-53% for the Russell 2000 Growth Index.

Zhang still buys stocks with at least a three- to five-year investment horizon, but the fund’s annual portfolio turnover has yet to reflect that. It was 78% in fiscal 2016, versus 66% for the small-growth category median. Take-outs accounted for some of that churn, but even with those Zhang showed a willingness to trade with the fund’s nimble asset base. She cashed in shares of Cvent CVNT in April after Vista Equity Partners announced its acquisition plans, but then bought some back in July when skepticism about the deal led the stock to trade around 15% below the acquisition price.

The time period is short, but results thus far have been good. From Zhang’s early 2015 start date through October 2016, the fund’s 3% cumulative gain beat the index by 4.5 percentage points. Zhang has a good shot to add to that outperformance over the long haul.

Process Pillar Positive | Alec Lucas, Ph.D. 02/15/2017

The fund’s revenue-centric, benchmark-agnostic approach earns a Positive Process Pillar rating. Rather than defining small companies primarily by market capitalization, which can be unduly influenced by investor expectations, manager Amy Zhang focuses on publicly traded firms with operating revenues of $500 million or less. She looks for those with healthy balance sheets, durable business models, and good prospects for long-term growth because their differentiated products or services satisfy emerging needs and enable expansion into related markets. She will also invest in private placements with similar attributes but keeps those stakes tiny because they’re relatively illiquid.

Zhang’s process entails courting considerable price risk as the firms she favors often have lofty valuations relative to their current earnings. On the other hand, their typically modest debt-to-capital levels lessen the likelihood of a blowup. The companies Zhang holds initially met her criteria when she first discovered them, but she won’t sell them just because they hit a certain revenue or market-cap threshold. She will, however, trim positions once a stock comes within 10% of her price target and exit those where her investment thesis proves amiss.

Annual turnover has come down since Zhang overhauled the portfolio in 2015, but at 78% in fiscal 2016 it was still above the small-growth Morningstar Category median of 66%.

Manager Amy Zhang builds a best ideas portfolio of roughly 40-50 stocks. Top positions typically take up 3%-5% of assets and are capped at 8%. That keeps security specific risk in check to a degree, but with 30%-40% of assets in it top-10 holdings the fund is among the more concentrated in the small-growth category.

The fund stays rooted in cash rich firms with competitive advantages that provide for continued growth, including expansion into other markets. Top-holding Cantel Medical CMN used a profitable foothold in dialysis treatment to build related businesses in water purification and endoscopy. Such firms come at cost, however. As of August 2016, stocks in the portfolio had an average P/E of 44.7 over the past year, which ranked as the category’s highest.
Zhang eschews the benchmark’s sector weightings. The fund tends to tread lightly in consumer and industrials stocks while keeping a massive 80%-87% combined stake in healthcare and tech, versus 47%-53% for the Russell 2000 Growth Index. Even in these sectors, Zhang’s attention to business fundamentals shows. She’s cautious about buying biotech firms, for example, because of their binary outcomes. Incyte INCY is an exception due to its myelofibrosis treatment monopoly and promising cancer drug pipeline. She will, however, make modest investments in private placement firms, like Intarcia Therapeutics.

Cash is typically 5% or less.

**People Pillar**  Positive | Alec Lucas, Ph.D. 02/15/2017

A proven manager with extensive expertise in small caps earns the fund a Positive People Pillar rating. Prior to joining Alger and taking over this fund on Feb. 12, 2015, manager Amy Zhang was a key contributor to Brown Capital Management Small Company BCSIX for 12-plus years. It had one of the best records in the small-growth category during her tenure and handily beat the Russell 2000 Growth Index. Zhang’s industry experience dates the late 1990s. She had a brief stint in credit derivatives before working as a global equity analyst at Templeton from 1998 to mid-1999 and then as a manager and analyst at Epsilon until she joined Brown in late 2002.

At Alger, Zhang faces the challenge of sourcing a central bench of about 20 analysts schooled in the firm’s aggressive growth, high-turnover style for ideas that fit with her benchmark-agnostic, long-term approach. It helps to have her own team of two generalist analysts, each with over a decade of industry experience. Nidhi Chadda, who has a background in consumer stocks, joined Alger in 2014 and has been one of Zhang’s dedicated analysts since early 2016. Thomas DeBourcy’s background is in health care. He came to Alger in 2015 and joined Zhang’s team a few months after former dedicated analyst Tim Wengler left in mid-2016. Zhang plans to add a third analyst with software experience.

Zhang invests between $100,000 and $500,000 in the fund.

**Price Pillar**  Negative | Alec Lucas, Ph.D. 02/15/2017

A fee waiver effective through mid-October 2017 will keep this fund’s fees more competitive than they would otherwise be. Overall, though, the fund is still pricey and earns a Negative Price Pillar rating. The A shares offer the best value relative to similarly distributed peers. Their 1.20% levy currently ranks in the cheapest quintile of small-cap, front-load funds. However, nearly four fifths of the fund’s assets are in the I and Z share classes, which have High and Above Average fee level scores, respectively.

Trading costs, on the other hand, are below most peers’. The fund’s brokerage fees totalled 0.09% of average net assets, versus 0.13% for the category median.

**Performance Pillar**  Neutral | Alec Lucas, Ph.D. 02/15/2017

The fund has a Neutral Performance Pillar rating because its track record under manager Amy Zhang is too short to be meaningful. That said, the fund has done well so far. From her Feb. 12, 2015 start date through October 2016, the fund’s 3% cumulative gain beat the Russell 2000 Growth Index by 4.5 percentage points and placed in the small-growth category’s top third.

The fund’s massive healthcare and tech overweights leave it prone to big swings in short-term performance whenever stocks in those sectors soar or sell-off on mass. That was evident in the sharp equity market correction from Dec. 30, 2015 to Feb. 11, 2016, which hit healthcare and tech names especially hard. Weighed down by stocks like Cvent CVT, a cloud-based event planner, the fund’s bottom-quintile 22.6% loss during that stretch lagged the index by nearly 2 percentage points.

Over the long haul, stock-picking should drive results here. At her former fund, Brown Capital Management Small Company BCSIX, Zhang and her comangers held on to promising companies for a decade or more, suffering through some stomach-churning share price drops along the way. Overall, though, the Brown portfolio proved resilient in Zhang’s 12-plus years. Its 13.3% annualized gain beat the Russell 2000 Growth Index by 1.8 percentage points and outpaced all but a few small-growth category peers while keeping volatility in check.

**Parent Pillar**  Neutral | Alec Lucas, Ph.D. 06/09/2017

Established in 1964 as a growth shop, privately held Fred Alger Management has overcome a great deal since the early 2000s. Its World Trade Center headquarters were decimated on 9/11, claiming the lives of most of the firm’s investment staff, including David Alger, the founder’s brother and manager of Alger Spectra SPECX, which Smart Money magazine praised as the most successful mutual fund of the 1990s. Alumni returned to help rebuild the firm, but soon afterward it was implicated in the market-timing and late-trading scandal of 2003. Alger settled those charges by 2007. With a bolstered compliance department, it has had a clean regulatory record since. Alger Spectra has returned to prominence, as it has consistently been a top-performing large-cap growth fund since manager Patrick Kelly took the helm in September 2004.

Kelly’s Alger Capital Appreciation ALARX has also excelled, but the firm has had less success running other strategies. That could change, though. Proven small-cap manager Amy Zhang joined in early 2015, and Alger acquired Weatherbie Capital in early 2017 for its small/mid-cap growth expertise. Both Zhang and the Weatherbie team build benchmark-agnostic portfolios of about 50 stocks. These additions are promising, but Alger still has room for improvement. Fees are above average, and overall manager investment is weak. The firm receives a Neutral Parent Pillar rating.
Alger Spectra Z ASPZX
Success and the challenge of size.

Morningstar’s Take ASPZX

Morningstar Rating ★★★★
Morningstar Analyst Rating Bronze

Montaurill Pillars
Process Positive
Performance Positive
People Positive
Parent Neutral
Price Negative

Role In Portfolio Core

Fund Performance ASPZX
Year | Total Return (%) | +/- Category
--- | --- | ---
YTD | 16.62 | 2.48
2016 | 0.17 | -3.06
2015 | 7.41 | 3.81
2014 | 12.60 | 2.60
2013 | 35.48 | 1.96

Data through 6-30-17

12-21-16 | by Alec Lucas, Ph.D.

Alger Spectra has a Morningstar Analyst Rating of Bronze because lead manager Patrick Kelly has proved skilled at executing Alger’s aggressive-growth, high-turnover approach, which includes the flexibility to short up to 10% of assets here. Indeed, from Kelly’s late September 2004 start date through November 2016, the fund’s 12.2% annualized gain beat the Russell 3000 Growth Index by 3.5 percentage points and earned the large-growth Morningstar Category’s top spot. Its risk-adjusted results during that time were also superior.

Lofty fees have always been a hurdle Kelly has had to overcome, but in recent years he’s also faced the challenge of size. Per SAI disclosures, Kelly has managed more than $15 billion across all accounts since late 2014, versus less than one third that figure at year-end 2009.

The increase in assets here has coincided with a move up the market-cap spectrum. Between late 2004 and late 2009, when this fund had less than $500 million in assets, its combined small- and mid-cap stope was on average 13 percentage points more than the index’s. The now $5 billion fund has been consistently underweight since 2010, however. In September 2016, it had a 9.2% stake, versus the index’s 17.6%.

The fund still has an aggressive edge. With nearly 44% of assets in its top 10 holdings as of September 2016, the fund was a bit more top-heavy than in Kelly’s first year. Sector bets remained sizable, too. Its 40.5% tech stake was nearly 10 percentage points more than the index’s.

The fund’s willingness to stand out has been a liability of late. Through November 2016, its 0.8% year-to-date loss trailed the index by 6.8 percentage points and the fund was on pace for its worst calendar-year showing versus the benchmark since 2008. The fund’s calendar-year returns under Kelly have otherwise been competitive, including crushing the index by double digits in 2005-07 and 2009.

The huge chunk of assets Kelly now manages will make it difficult to build on his long-term record. Yet, with his skill, experience, and ability to adapt, he should have a good shot.

Process Pillar Positive | Alec Lucas, Ph.D. 12/21/2016
Lead manager Patrick Kelly’s skilled use of Alger’s firmwide approach to growth investing merits a Positive Process Pillar rating. Like his colleagues, Kelly looks for firms that are poised for growth in one of two stages: those with high unit volume growth, or emerging firms, and those undergoing positive life-cycle changes, such as new management or product advancements. Since 2008, the fund has been able to short up to 10% of assets. Kelly typically chooses stocks he believes are likely to lose market share to competitors.

Kelly taps Alger’s roughly 20-person team of analysts to find growing firms within their respective sectors. The analysts come up with one-, three-, and five-year target prices for each firm, modeling earnings and cash flows during five years. Kelly ultimately picks the stocks that he thinks have the most upside potential relative to their price targets and is willing to deviate meaningfully from the Russell 3000 Growth Index’s sector weightings. He monitors risk/reward trade-offs and often trims positions after they come within 10% of their price targets, which is one reason for the portfolio’s above-average, triple-digit annual turnover. Kelly is willing to pay up for growth, but the portfolio’s average price multiples tend to be in line with and sometimes below the benchmark’s and typical rival’s, suggesting that he’s not insensitive to valuation.

This portfolio’s exposure to stocks at the lower end of the market-cap spectrum is less pronounced than in the past. Between late 2004 and late 2009, when the fund had less than $500 million in assets, its combined small- and mid-cap stake was on average 13 percentage points more than the Russell 3000 Growth Index’s. The now $5 billion fund has been consistently underweight since 2010, however. As of September 2016, it had a 9.2% small- and mid-cap stake, versus the index’s 17.6%.

The portfolio isn’t tame, though. It has become more top-heavy since mid-2014, and its 44% stake in its top 10 holdings, as of September 2016, ranked in the category’s top quartile. Sector bets can be sizable, too. The fund’s 40.5% tech weighting was nearly 10 percentage points more than the index’s. Four of the top five holdings were tech titans, including Alphabet GOOGL, with tech-dependent retailer Amazon.com AMZN the lone exception. Each position reflects...
management’s optimism about firms poised to benefit from increases in Internet usage.

Kelly also takes minor short positions in stocks of firms that he thinks are poised to lose market share, whether because of managerial missteps or product obsolescence. As of September 2016, he was shorting about 3.4% of assets, including a 0.4% short position in broadcaster Scripps Networks Interactive SNI, which must navigate changing TV viewing habits.

**Performance Pillar** Positive | Alec Lucas, Ph.D. 12/21/2016

A topnotch, albeit volatile, record under lead manager Patrick Kelly earns the fund a Positive Performance rating. Since Kelly took the helm in late September 2004, the fund’s 12.2% annualized return through November 2016 beat the Russell 3000 Growth Index by 3.5 percentage points and earned the category’s top spot; Kelly’s other charge, Alger Capital Appreciation ALARX, placed fourth.

Kelly’s aggressive tactics tend to pay off in rallies but can lead to sizeable losses in downturns. The fund posted top-decile calendar-year returns among large-growth peers in 2005-07, as well as in 2009’s rebound, but fared worse than nearly three fourths of rivals in 2008. More recently, the fund struggled in the early 2016 market plunge and through November had a bottom-quintile 0.8% year-to-date loss.

Unlike Alger Capital Appreciation, this fund since September 2008 has also been able to short up to 10% of assets. Kelly uses the cash from short sales to increase long exposure, which has consistently helped the fund. The short positions themselves have seldom added value. Per the fiscal 2016 semiannual report, the portfolio’s average allocation to short positions during the prior six months was negative 4.5% of assets, which detracted 12 basis points from its return. Moreover, from fiscal 2010 to 2015, the fund’s short positions made a modest positive contribution only in 2012.

**People Pillar** Positive | Alec Lucas, Ph.D. 12/21/2016

The fund’s Positive People rating reflects lead manager Patrick Kelly’s talent and experience. Since taking the helm here and at Alger Capital Appreciation ALARX in late September 2004, his first shot at portfolio management, Kelly has executed the firm’s aggressive approach with great success. This fund and the less-flexible Alger Capital Appreciation have consistently been top performers in the large-growth category. In June 2015, the firm tapped Ankur Crawford to assist Kelly as comanager on both funds. She joined Alger around the time Kelly took over here. Crawford subsequently completed Alger’s in-house training program, the same one Kelly went through in the late 1990s, and like Kelly worked initially as a tech analyst. She’s been a portfolio manager on Alger Mid Cap Growth AMCGX and its clones since November 2010. They have not fared as well as Kelly’s funds have during her tenure, but significant turnover among Crawford’s comangers make them an imperfect gauge of her management abilities.

Kelly and Crawford draw support from roughly 20 analysts who divide coverage based on global sectors and regions. About a third of the analysts have less than 15 years of industry experience, while three have more than 20 years of experience.

Kelly has more than $1 million invested in this fund. He invests at least $50,000 in Alger Capital Appreciation and Crawford at least $20,000.

**Price Pillar** Negative | Alec Lucas, Ph.D. 12/21/2016

Fees have come down the past few years but remain lofty compared with most rivals’, earning the fund a Negative Price rating. The A shares’ 1.34% fiscal 2015 expense ratio, which applied to about one third of assets, was 17 basis points above the large-cap, front-load peer median. That ranked in the second-most-expensive quintile of those peers. The fund fares better when one subtracts the 15 basis points it paid for dividend and interest expenses on short positions, costs most competitors don’t incur. Even without those expenses, its fees across all share classes were still above average compared with similarly distributed peers.

Investors also face ample trading costs thanks to triple-digit portfolio turnover. In fiscal 2015, brokerage fees of 0.12% of average net assets were well above the 0.04% category median.
Alger Capital Appreciation Z ACAZX
Success and the challenge of size.

Morningstar's Take ACAZX

Morningstar Rating ★★★★
Morningstar Analyst Rating Bronze
Morningstar Pillars
Process ☑ Positive
Performance ☑ Positive
People ☑ Positive
Parent ☑ Neutral
Price ☑ Negative

Role In Portfolio Core

Fund Performance ACAZX

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Data through 8-30-17

12-22-16 | by Alec Lucas, Ph.D.

Alger Capital Appreciation has a Morningstar Analyst Rating of Bronze because lead manager Patrick Kelly has proved skilled at executing Alger’s aggressive-growth, high-turnover approach. From Kelly’s 2004 start date through November 2016, the fund’s 11.2% annualized gain beat the Russell 1000 Growth Index by 2.5 percentage points and outpaced all but four large-growth Morningstar Category peers.

Lofty fees have always been a hurdle for Kelly, but in recent years he’s also faced the challenge of size. Per Statement of Additional Information disclosures, Kelly has managed more than $15 billion across all accounts since late 2014, versus less than one third that figure at year-end 2009.

The increase in assets here has coincided with a move up the market-cap spectrum. Between late 2004 and late 2009, when the fund and its open-end clones together had less than $2 billion in assets, the fund’s combined small- and mid-cap stake was on average 17.4 percentage points more than the Russell 1000 Growth Index’s. The now $6.4 billion Alger Capital Appreciation open-end lineup has been consistently underweight since 2010, however. As of September 2016, this fund had a 12% small- and mid-cap stake, versus the index’s 20%.

The fund still has an aggressive edge. With 43% of assets in its top 10 holdings, as of September 2016, the fund was more top-heavy than three fourths of its peers. Sector bets remained sizable, too. Its 40.4% tech weighting was nearly 9 percentage more than the index’s.

The fund’s willingness to stand out has been a liability of late. Through November 2016, its 0.2% year-to-date loss trailed the index by 6 percentage points, and the fund was on pace for its worst calendar-year showing versus the benchmark since 2008. The fund’s calendar-year returns under Kelly have otherwise been competitive, though, including crushing the index from 2005-07 and in 2009 while edging it from 2012-15.

The huge chunk of assets Kelly now manages will make difficult to build on his long-term record. Yet, with his skill, experience, and ability to adapt, he should have a good shot.

Process Pillar ☑ Positive | Alec Lucas, Ph.D.
12/22/2016

Lead manager Patrick Kelly’s skilled use of Alger’s aggressive-growth approach to investing merits a Positive Process Pillar rating. Like his colleagues, Kelly looks for companies that are poised for growth in one of two stages. Some have high unit volume growth leading to increased product demand and market share, like search-engine giant Alphabet GOOG. Others undergo positive lifecycle changes, such as benefiting from new management or product advancements. Apple AAPL, with its series of innovative iPhone, iPad, and Apple Pay launches, is an example.

Kelly taps Alger’s team of analysts to find growing firms within their respective sectors. The analysts come up with one-, three-, and five-year target prices for each firm, modeling earnings and cash flows over five years. Kelly ultimately picks the stocks that he thinks have the most upside potential relative to their price targets and is willing to deviate meaningfully from the Russell 1000 Growth Index’s sector weightings. He monitors risk/reward trade-offs and often trims positions after they come within 10% of their price targets, which is one reason for the portfolio’s above-average, triple-digit annual turnover. Kelly is willing to pay up for growth, but the portfolio’s average price multiples tend to be in line with and sometimes below the benchmark’s and typical rival’s, suggesting that he’s not insensitive to valuation.

The portfolio’s exposure to stocks at the lower end of the market-cap spectrum is less pronounced than in the past. Between late 2004 and late 2009, when the fund and its open-end clones together had less than $2 billion in assets, the fund’s combined small- and mid-cap stake was on average 17.4 percentage points more than the Russell 1000 Growth Index’s. The $6.4 billion Alger Capital Appreciation open-end lineup has been consistently underweight since 2010, however. As of September 2016, this fund had a 12% small- and mid-cap stake, versus the index’s 20%.

The portfolio isn’t tame, though. It has become more top-heavy since mid-2014, and its 43% stake in its top 10 holdings, as of September 2016, ranked in the large-growth category’s top quartile. Sector bets can still be sizable, too. The fund’s 40.4% tech weighting was nearly 9 percentage more than the index’s. Four of the top five holdings were tech titans, including Alphabet, with tech-dependent retailer Amazon.com AMZN as the lone exception. Each position reflects

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management’s optimism about firms poised to benefit from increases in Internet usage.

Although the portfolio sits squarely in the large-growth section of the Morningstar Style Box, some holdings cross into value. The fund’s 0.7% stake in Air Products & Chemicals APD, as of September 2016, is an example. It should benefit from rising North American oil and gas production.

**Performance Pillar ➤ Positive | Alec Lucas, Ph.D. 12/22/2016**

A topnotch, albeit volatile, record under lead manager Patrick Kelly earns the fund a Positive Performance Pillar rating. Since Kelly took the helm in late September 2004, the fund’s 11.2% annualized return through November 2016 beat the Russell 1000 Growth Index by 2.5 percentage points and earned the large-growth category’s fifth spot, while Kelly’s other charge, Alger Spectra ALARX, placed first.

Kelly’s aggressive tactics can pay off handsomely in rallies but lead to sizable losses in downturns. The fund posted top-decile calendar-year returns among large-growth peers in 2005-07, as well as in 2009’s rebound, but fared worse than roughly four fifths of rivals in 2008. That year Kelly bought speculative fare like JA Solar JASO, which did not have positive cash flows, and was too slow to sell amid the burgeoning credit crisis.

Since year-end 2009, performance has moderated but remained competitive overall. The fund edged the benchmark and its typical rival each calendar year from 2012 to 2015. Through November 2016, however, its 0.2% year-to-date loss trailed the index by 6 percentage points, and the fund was on pace for its worst calendar-year showing versus the benchmark since 2008. stock-picking has been poor, especially in tech. Healthcare stocks also hurt, including top-20 positions in Allergan AGN and Vertex Pharmaceuticals VRTX to begin the year.

**People Pillar ➤ Positive | Alec Lucas, Ph.D. 12/22/2016**

The fund’s Positive People Pillar rating reflects lead manager Patrick Kelly’s talent and experience. Since taking the helm here and at Alger Spectra SPECTX in late September 2004, his first shot at portfolio management, Kelly has executed the firm’s aggressive approach with great success. This fund and Spectra, its more flexible counterpart, have consistently been top performers in the large-growth category.

In June 2015, the firm tapped Ankur Crawford to assist Kelly as co-manager on both funds. She joined Alger around the time Kelly took over here. Crawford subsequently completed Alger’s in-house training program, the same one Kelly went through in the late 1990s, and like Kelly, she worked initially as a tech analyst. She’s been a portfolio manager on Alger Mid Cap Growth AMCGX and its clones since November 2010. They have not fared as well as Kelly’s funds have during her tenure, but significant turnover among Crawford’s co-managers make them an imperfect gauge of her management abilities.

Kelly and Crawford draw support from roughly 20 analysts who divide coverage based on global sectors and regions. About a third of the analysts have less than 15 years of industry experience while the rest have more than 20 years.

Kelly has at least $50,000 in the Alger Capital Appreciation strategy and Crawford at least $20,000. Kelly also invests over $1 million in Alger Spectra.

**Price Pillar ➤ Negative | Alec Lucas, Ph.D. 12/22/2016**

Fees have come down the past few years but remain lofty compared with most rivals’, earning the fund a Negative Price Pillar rating. The A shares’ 1.23% fiscal 2015 expense ratio, which applied to over half the fund’s asset base, was 6 basis points above the large-cap, front-load peer median. That ranked in the most expensive third of those peers. At 0.90%, the Z shares were more competitively priced, but their $500,000 minimum investment places them in the large-cap institutional fee-level comparison group. As a result, they too have an above-average price tag.

Investors also face ample trading costs thanks to the fund’s triple-digit annual portfolio turnover. In fiscal 2015, brokerage fees of nearly 0.12% of average net assets were well above the 0.04% category median.

© 2017 Morningstar, Inc. All rights reserved. The Morningstar name is a registered trademark of Morningstar, Inc.
Each of our three Morningstar medalists is grounded in Alger’s growth style of investing, which Alger has been committed to since the firm was founded in 1964.
These article reprints were originally published by Morningstar on January 4, 2017 for Alger Capital Appreciation, January 4, 2017 for Alger Spectra, and November 14, 2016 for Alger Small Cap Focus, and are considered sales literature for the Alger funds mentioned only and not for any other products shown. Please note that 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 June 30, 2017, the Alger Capital Appreciation Fund, Alger Spectra Fund, and Alger Small Cap Focus Fund (the “Funds”) returned the following:

### Average Annual Total Returns (%) (as of 6/30/17)

<table>
<thead>
<tr>
<th>Fund</th>
<th>QTR</th>
<th>YTD</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alger Capital Appreciation Class Z (Incepted 12/29/10)</td>
<td>4.97</td>
<td>16.72</td>
<td>21.46</td>
<td>10.08</td>
<td>15.36</td>
<td>13.31</td>
</tr>
<tr>
<td>Russell 1000 Growth Index</td>
<td>4.67</td>
<td>14.00</td>
<td>20.42</td>
<td>11.11</td>
<td>15.30</td>
<td>13.64</td>
</tr>
<tr>
<td>Morningstar (Large Growth Category) Based on Total Returns</td>
<td>32%</td>
<td>448/1.424</td>
<td>32%</td>
<td>401/1.277</td>
<td>21%</td>
<td>236/1.152</td>
</tr>
<tr>
<td>Total Annual Fund Operating Expenses (Prospectus Dated 2/28/17)</td>
<td>0.89%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russell 3000 Growth Index</td>
<td>4.65</td>
<td>13.69</td>
<td>20.72</td>
<td>10.83</td>
<td>15.20</td>
<td>13.46</td>
</tr>
<tr>
<td>Morningstar (Large Growth Category) Based on Total Returns</td>
<td>33%</td>
<td>472/1.424</td>
<td>33%</td>
<td>415/1.277</td>
<td>20%</td>
<td>230/1.152</td>
</tr>
<tr>
<td>Total Annual Fund Operating Expenses (Prospectus Dated 2/28/17)</td>
<td>0.99%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alger Small Cap Focus Class Z (Incepted 12/29/10)</td>
<td>8.95</td>
<td>18.27</td>
<td>29.11</td>
<td>10.11</td>
<td>14.36</td>
<td>11.35</td>
</tr>
<tr>
<td>Morningstar (Small Growth Category) Based on Total Returns</td>
<td>10%</td>
<td>66/670</td>
<td>12%</td>
<td>72/599</td>
<td>22%</td>
<td>118/533</td>
</tr>
<tr>
<td>Total Annual Fund Operating Expenses (Prospectus Dated 2/28/17)</td>
<td>1.01%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Only periods greater than 12 months are annualized.

Prior to 8/07/15, the Alger Small Cap Focus Fund followed different investment strategies under the name “Alger Growth Opportunities Fund” and prior to 2/12/15 was managed by a different portfolio manager. Accordingly, performance prior to those dates does not reflect the Alger Small Cap Focus Fund’s current investment strategies and investment personnel. Effective 8/07/15, the Alger Small Cap Focus Fund’s primary benchmark is Russell 2000 Growth Index.

Class Z Shares are generally subject to a minimum initial investment of $500,000, which may be waived for group employer-sponsored 401(k) plans, 457 plans, employer sponsored 403(b) plans, profit-sharing and money purchase pension plans, defined benefit plans, retiree health benefit plans and non-qualified deferred compensation plans. The waiver is available only for retirement plans that hold omnibus positions, or for aggregate plan participant positions, for each Fund made available for the plan. The waiver is generally not available to non-retirement accounts, traditional and Roth Individual Retirement Accounts, Coverdell Education Savings Accounts, SEPs, SARSEPs, SIMPLE IRAs, individual 401(k) plans or individual 403(b) plans.

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.

Morningstar percentile rankings are based on the total return percentile rank that includes reinvested dividends and capital gains (excluding sales charge) within each Morningstar Category. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. If sales charges were included, performance would be lower and the rank may be lower.

Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund’s monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of the funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 45% receive 3 stars, the next 25.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Morningstar Rating™ may differ among share classes of a mutual fund as a result of different sales loads and/ or expense structures. It may be based, in part, on the performance of a predecessor fund.

Alger Spectra Fund Class Z was rated 3 and 4 stars for the 3- and 5-year periods among 1,277 and 1,152 Large Growth funds; Alger Capital Appreciation Fund Class Z was rated 3 stars for the 3-year period among 1,277 Large Growth funds; and Alger Small Cap Focus Fund Class Z was rated 4 and 4 stars for the 3- and 5-year periods among 599 and 533 Small Growth funds as of 6/30/17.

The Morningstar Analyst Rating should not be used as the sole basis in evaluating a mutual fund. Morningstar Analyst Ratings involve unknown risks and uncertainties which may cause Morningstar’s expectations not to occur or to differ significantly from what we expected. The Morningstar ratings are displayed for informational purposes only and should not be relied upon when making investment decisions. ©2017 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. When an expense waiver is in effect, it may have a material effect on the total return or yield, and therefore the ranking and/or rating for the period. Past performance is no guarantee of future results. 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 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 means Morningstar analysts think highly of the fund and expect it to outperform in a full market cycle of at least five years.

The Morningstar Analyst Rating scale is designed to highlight the relative strengths and weaknesses of each fund. The rating reflects Morningstar analysts’ assessment of a fund’s risk-adjusted performance relative to its Morningstar peers. The rating is based on five pillars: process, performance, people, parent, and price. Morningstar analysts use their 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 Morningstar 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.

 Investors should not consider references to individual securities as an endorsement or recommendation to purchase or sell such security. Transactions in such securities may be made that seemingly contradict the references to them for a variety of reasons, including, but not limited to, liquidity to meet redemptions or overall portfolio rebalancing. Holdings are subject to change.
**Risk Disclosures:** Investing in the stock market involves gains and losses and may not be suitable for all investors. As with any fund that invests in stocks, your investment will fluctuate in value, and the loss of your investment is a risk of investing. The Funds’ share price may fluctuate due to changes in the market prices of its investments. Also, the Funds’ investments may not grow as fast as the rate of inflation and stocks tend to be more volatile than some other investments you could make, such as bonds. Prices of growth stocks tend to be higher in relation to their companies’ earnings and may be more sensitive to market, political and economic developments than other stocks, making their prices more volatile. An investment in the Funds may be better suited to investors who seek long-term capital growth and can tolerate fluctuations in their investment’s value.

For Alger Small Cap Focus, there may be greater risk in investing in companies with small market capitalizations rather than larger, more established issuers owing to such factors as more limited product lines or financial resources or lack of management depth. It may also be difficult or impossible to liquidate a security position at a time and price acceptable to the Fund because of the potentially less frequent trading of stocks of smaller market capitalization. The Fund may have a more concentrated portfolio than other funds, so it may be more vulnerable to changes in the market value of a single issuer and may be more susceptible to risks associated with a single economic, political or regulatory occurrence than a fund that has a more diversified portfolio. The Fund may have substantial holdings within a particular sector, and companies in similar industries may be similarly affected by particular economic or market events.

Since the Alger Small Cap Focus Fund concentrates its investments in technology companies, the value of the Fund’s shares may be more volatile than mutual funds that do not similarly concentrate their investments. Furthermore, because the field of medical technology is subject to substantial government regulation, changes in applicable regulations could adversely affect companies in those industries. In addition, the comparative rapidity of product development and technological advancement in those industries may be reflected in greater volatility of the stocks of companies operating in those areas. In addition, companies focused in the field of information technology can be significantly affected by intense competition, aggressive pricing, technological innovations, product obsolescence, patent considerations, product compatibility and consumer preferences.

Alger Spectra Fund may engage in short sales. Short sales involve arrangements with a broker to borrow the security being sold short. In order to close out the short position, the Fund will replace the security by purchasing the security at the price prevailing at the time of replacement. The Fund will incur a loss if the price of the security sold short increases since the time of the short sale and may experience a gain if the price has decreased since the short sale. The use of short sales could increase the Fund’s exposure to the market, magnifying losses and increasing volatility.

Alger Spectra and Capital Appreciation Funds can leverage (borrow) to achieve their investment objectives. The cost of borrowing money to leverage could exceed the returns for securities purchased or the securities purchased may go down in value; leverage may cause the Funds’ net asset value to decrease more quickly than the Funds had not borrowed.

The Russell 2000® Growth Index is an unmanaged index designed to measure the performance of the 2,000 smallest companies in the Russell 3000® Index with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on the total market capitalization, which represents 99% of the U.S. equity market. The Russell 3000 Growth Index was created on 12/31/78 and measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. Russell 1000® Growth: An unmanaged index of common stocks designed to measure the performance of the largest 1000 capitalization companies in the Russell 3000® with higher price-to-book ratios and higher forecasted growth values. Investors cannot invest directly in any index. Index performance does not reflect deductions for fees, expenses or taxes. Note that comparing the performance to a different index might have materially different results than those shown. Any views and opinions expressed herein are not meant to provide investment advice and there is no guarantee that they will come to pass.

As of June 30, 2017, the securities mentioned in this reprint represented the following as a percent of Alger’s assets under management: Amazon.com, 5.44%; Comcast Corp., 1.58%; Facebook, Inc., 3.86%; Alphabet, 4.53%; Microsoft, 4.94%; Allergan PLC, 0.52%; Incyte Corporation, 0.67%; Cantel Medical Corp., 0.15%; Cvent 0.0%; Vista Equity Partners, 0.0%; Yum Brands, 0.00%; Alibaba Group, 2.01%; Delphi Automotive, 0.35%; Scripps Networks, 0.00%; Bed Bath & Beyond, 0.00%.

**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.**

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