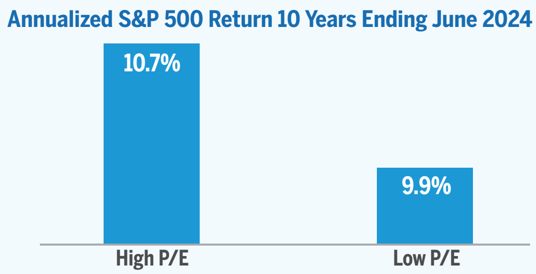
The Potential Price-to-Earnings Drawback

Price-to-earnings (P/E) ratios are a common starting point for many investors evaluating investment decisions. However, the evolution of our modern economy has led companies to invest more heavily in intangible assets (e.g., research & development) rather than tangible assets (e.g., factories, inventory, equipment), which can distort P/E ratios. This shift suggests that investors may want to also incorporate free cash flow (FCF) data in their analysis, as it may provide a more holistic view of a company's financial well-being.

Valuation Caution

Relying solely on a single valuation metric, such as P/E ratios, for investment decisions may not be helpful, in our view. Historical data shows that high P/E stocks have outperformed low P/E stocks over the past decade, challenging the notion that lower valuations consistently lead to better returns.

No Advantage to Lower P/E's

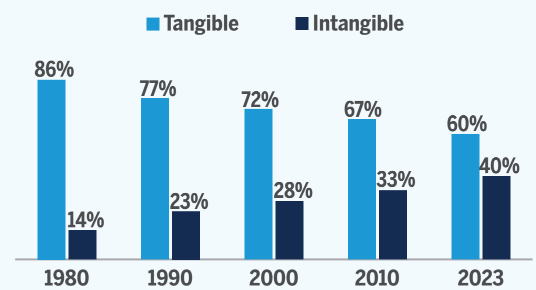


Source: FactSet and Standard & Poor's. High P/Es are highest two quintiles of the S&P 500 Index and low P/Es are lowest two quintiles. Data calculated monthly. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

Intangible Assets Distorting Metrics?

Companies have increased their investments in intangible assets over the past several decades. This has, in our view, created accounting issues given that internal spending on intangible assets is generally expensed, resulting in lower earnings than had they been capitalized. As a result, a company's true asset value may be misrepresented when evaluated based solely on earnings.

Business Investment: Intangible vs. Tangible



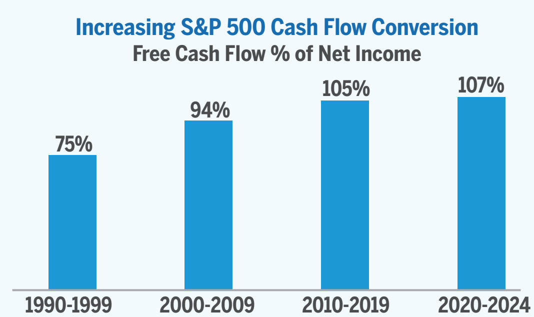
Source: Bureau of Economic Analysis as of 12/31/2023. Data represents nonresidential fixed investment. Tangible spend is comprised of structures and equipment and intangible spend is comprised of intellectual property products including software and R&D.

Rising Free Cash Flow Conversion

The increase in intangible asset investments is likely contributing to higher free cash flow relative to earnings—known as FCF conversion—for the S&P 500. In our view, FCF metrics such as price to free cash flow (P/FCF) are therefore at least as relevant as P/E when evaluating companies.

We believe that higher free cash flow conversion implies that a higher price-to-earnings ratio is appropriate relative to history. This may have a profound impact on security selection as well as asset allocation models that utilize accounting-based valuation metrics such as P/E, potentially implying higher equity allocations.

Follow the Cash Flow



Source: FactSet and Standard & Poor's as of 6/30/2024.

The views expressed are the views of Fred Alger Management, LLC ("FAM") and its affiliates as of August 2024. These views are subject to change at any time and may not represent the views of all portfolio management teams. These views should not be interpreted as a guarantee of the future performance of the markets, any security or any funds managed by FAM. These views are not meant to provide investment advice and should not be considered a recommendation to purchase or sell securities.

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 environmental or natural disasters, war, terrorism, pandemics, outbreaks of infectious diseases and similar public health threats, recessions, or other events could have a significant impact on investments. **Past performance is not indicative of future performance.** Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Important Information for US Investors: This material must be accompanied by the most recent fund fact sheet(s) if used in connection with the sale of mutual fund and ETF shares. Fred Alger & Company, LLC serves as distributor of the Alger mutual funds.

S&P 500®: An index of large company stocks considered to be representative of the U.S. stock market. S&P 500 Index performance does not reflect deductions for fees or expenses. Investors cannot invest directly in any index. Index performance does not reflect deductions for taxes. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

The S&P 500 Index is an index of large company stocks considered to be representative of the U.S. stock market. The indices presented are provided for illustrative purposes, reflect the reinvestment of dividends and do not assess fees and expenses that would have the effect of reducing returns. Investors cannot invest directly in any index. The index performance does not represent the returns of any portfolio advised by Fred Alger Management, LLC and actual client results might differ materially than the indices shown. **Note that past performance is no guarantee of future results.** The S&P indexes are a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by Fred Alger Management, LLC and its affiliates. S&P® is a registered trademark of Standard & Poor's Financial Services LLC and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC. Neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors make any representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors shall have any liability for any errors, omissions, or interruptions of any index or the data included therein.

FactSet is an independent source, which Alger believes to be a reliable source. Alger, however, makes no representation that it is complete or accurate.

Price-to-earnings (P/E) ratio is a company's share price compared to earnings per share.

Free cash flow is the cash a company generates after taking into consideration cash outflows that support its operations and maintain its capital assets.

Price to Free Cash Flow is a company's market capitalization over its free cash flow.

Alger pays compensation to third party marketers to sell various strategies to prospective investors.

Fred Alger Management, LLC 100 Pearl Street, New York, NY 10004 / 212-806-8800 / www.alger.com