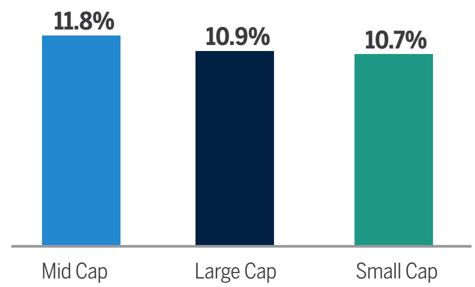
Why Mid Caps Now?

We believe mid cap stocks present a unique risk-return profile that combines the growth potential of small caps with the stability of large caps. Additionally, over the past 30 years, mid caps have exhibited stronger absolute and risk-adjusted returns in comparison to both large and small cap stocks (see Figures 1 and 2). However, despite this impressive performance, investors commonly underallocate assets to U.S. mid cap stocks. According to our research, while mid cap stocks represent approximately 20% of the entire U.S. equity market, they only account for 9% of the invested assets.

Considering this prevalent underweighting, U.S. mid cap stocks offer a potential opportunity to enhance returns and achieve alpha through effective active management that identifies undiscovered opportunities. We believe the following factors should be considered when evaluating mid cap stocks.

Figure 1:
Annualized Total Returns



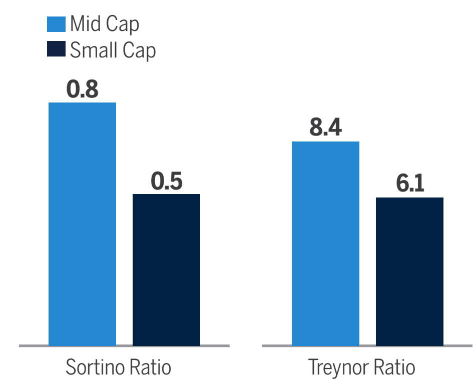
Source: FactSet for the 30-year period ended December 31, 2024. Mid Caps represented by the S&P Mid Cap 400; Small Caps represented by the S&P SmallCap 600; Large Caps represented by the S&P 500. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

Faster Growth Potential Than Large Caps

The growth potential of mid caps can be compelling as they expand their market share, enter new markets, or innovate in their respective industries. Additionally, we believe mid cap companies are generally more agile and can quickly adapt to changing market conditions and capitalize on emerging opportunities. Our research shows that earnings estimates for mid cap stocks are projected to grow faster than many large caps, which may have already reached their life cycle maturity. Over the last 30 years as of December 31, 2024, the earnings per share (EPS) growth rate for the S&P MidCap 400 Index has been over 260 basis points (bps) per year greater than the S&P 500 index. This has resulted in S&P MidCap 400 Index earnings increasing 1,559% during this time period compared to 735% for the S&P 500 Index

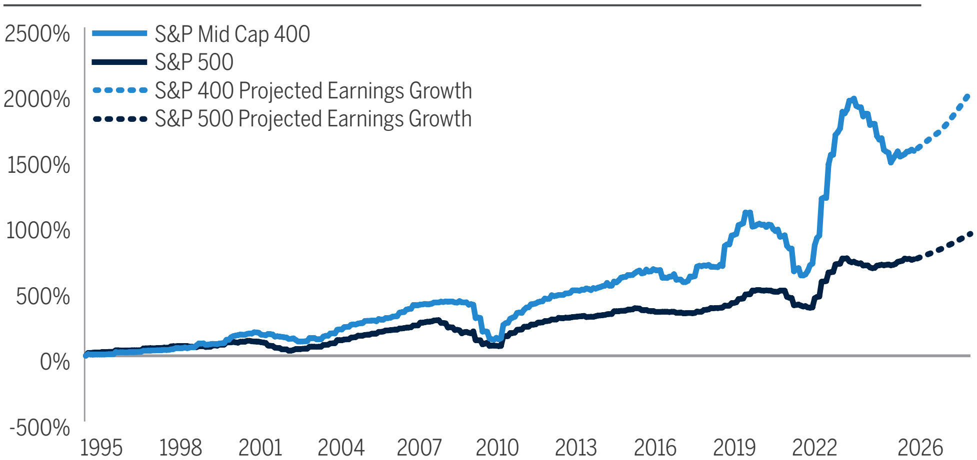
In addition to a structural growth advantage evidenced by historical data, mid cap stocks are forecast to grow their earnings much faster than large cap stocks (see Figure 3).

Figure 2:
Risk-Adjusted Return Metrics



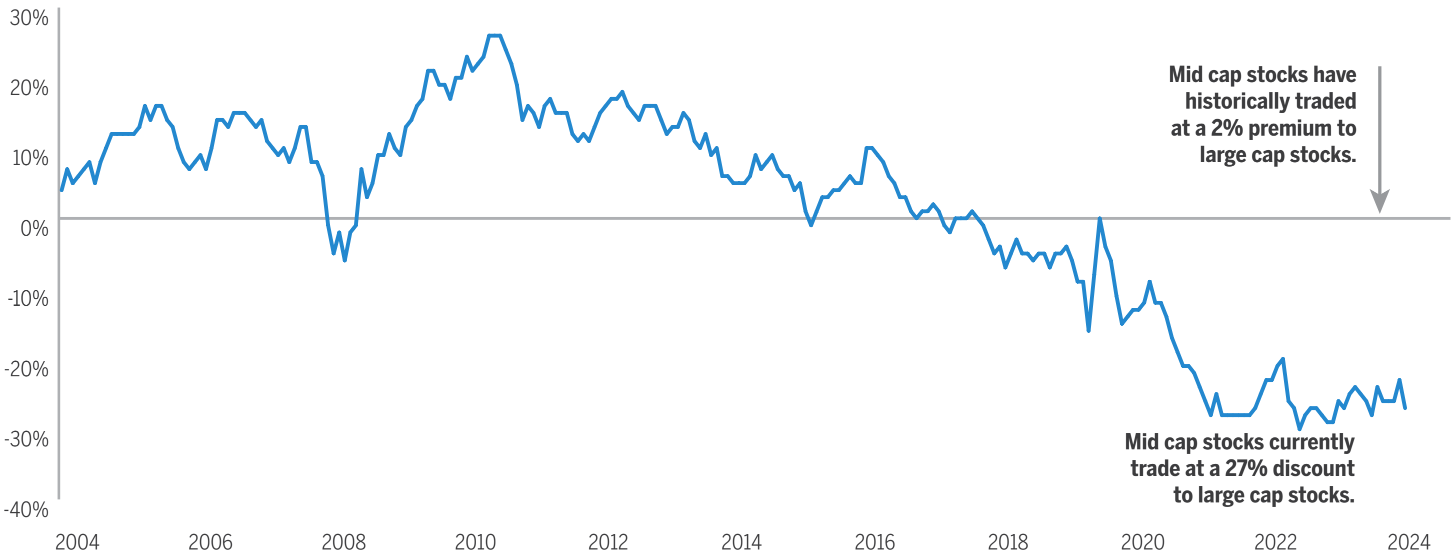
Source: FactSet for the 30-year period ended December 31, 2024. Mid Caps represented by the Russell Midcap Index; Small Caps represented by the Russell 2000; See disclosures for definitions.

Figure 3: **Cumulative Earnings Per Share Growth**



Source: FactSet as of December 31, 2024.

Figure 4: **Price-to-Earnings S&P MidCap 400 / S&P 500**



Source: FactSet. P/E is price divided by earnings per share over next 12-months, as of December 31, 2024.

Attractive Relative Valuation

In recent years, U.S. mid cap stocks have experienced underperformance, leading to a decrease in their overall valuation relative to U.S. large cap stocks. Currently, however, mid cap stocks are trading at a significant 27% discount compared to large caps, when measured by P/E (see Figure 4). We consider this relative valuation to be a critical factor when evaluating mid cap stocks as an investment opportunity.

Improved Portfolio Efficiency

The lower correlation of mid cap stocks to large cap stocks can be an attractive feature for investors seeking diversification benefits (see Figure 5). By adding mid cap stocks to a portfolio that already includes large cap stocks, we believe investors can potentially achieve a more balanced risk profile, improve portfolio efficiency, and reduce overall portfolio volatility.

THE ALGER MID CAP GROWTH STRATEGY

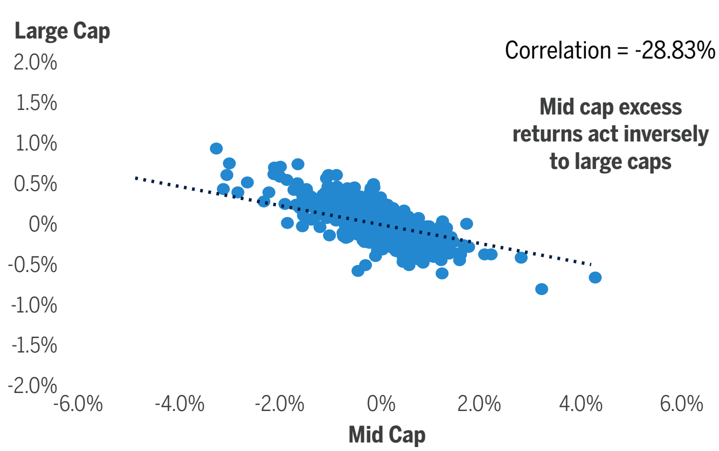
Brandon Geisler, portfolio manager for the Alger Mid Cap Growth strategy with more than two decades of mid cap investing experience, has an investment philosophy focused on using fundamental research to identify and invest in mid cap stocks with solid growth potential that also demonstrate high quality company fundamentals. Brandon typically pursues high-quality companies with strong balance sheets, consistent revenue growth, high free cash flow and relatively low net debt, as he belives these companies may be better positioned to endure economic downturns and provide greater overall stability.

Portfolio Construction

Brandon's portfolio construction and philosophy reflects a balanced approach with a focus on quality, value, and patience in finding ideal entry points. Within the portfolio, Brandon allocates his positions into three distinct buckets: Aggressive Growers, Growth Compounders and Life Cycle Changers (see Figure 6).

- **Growth Compounders.** (60-80% of holdings) The majority of the portfolio holdings in the strategy, these are companies that have transitioned from early-stage growth to a more stable and diversified business model, demonstrating strong growth prospects. Preferably, they are top players within an industry.

Figure 5: **Excess Returns**



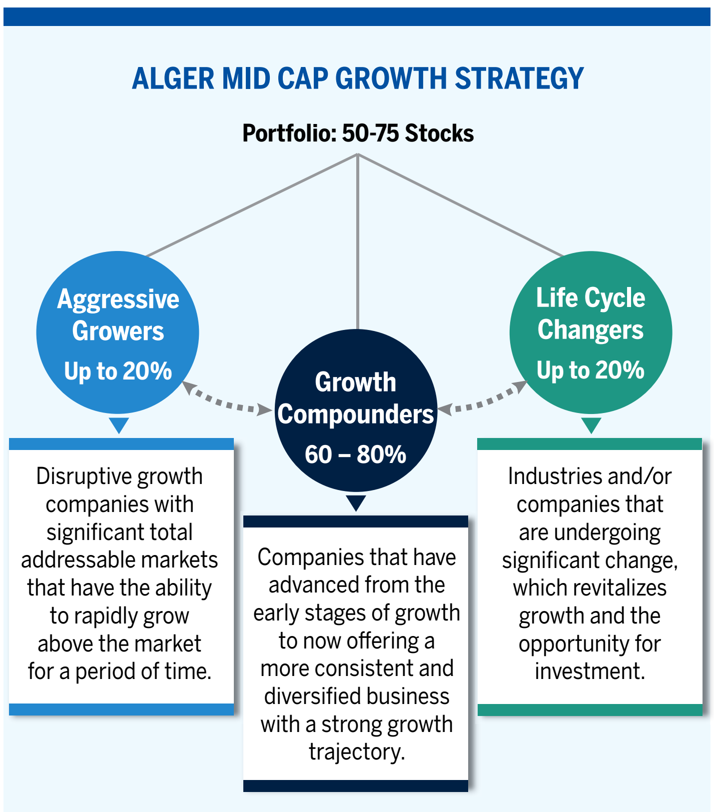
Source: FactSet for the 20-year period ended August 30, 2024. Calculated weekly using Russell Midcap Index and S&P 500 Index returns relative to the Wilshire 5000 Index. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

- **Life Cycle Changers.** (0-20%) These are companies undergoing significant transformations. They benefit from factors like new management, innovative products, mergers & acquisitions, and debt restructuring, leading to a potential "growth renaissance" for these companies.
- **Aggressive Growers.** (0-20%) The third category consists of disruptive high-growth oriented companies operating in large total addressable markets. These firms exhibit the potential to achieve rapid growth while still capturing significant market share.

We believe the use of these three flexible buckets in constructing the portfolio creates a pendulum effect that may optimize the strategy's potential to achieve high risk-adjusted returns.

Another key attribute of the portfolio is striving to maintain low turnover. The majority of companies in the portfolio have well-established businesses with relatively low earnings variability, primarily in industries such as technology, health care, business and consumer. Our intention is to invest the core of the portfolio in high-quality, long-duration investment ideas. By doing so, we aim to reduce turnover and minimize trading costs, which we believe will ultimately enhance overall returns.

Figure 6: **Portfolio Construction**



Stock Examples

HEICO Corporation (HEICO) is an example of a Growth Compounder in the portfolio. We believe that HEICO, a rapidly growing technology-driven Aerospace company, is a high quality compounder levered to strong fundamentals in the commercial and military aerospace aftermarket. HEICO builds parts that are PMA approved (FAA Parts Manufacturer Approval), where their distinct approach positions them to leverage a large, underpenetrated total addressable market, creating a competitive moat as they increase market penetration. With 19 of the 20 largest airlines in the world as customers, HEICO appears to be a classic growth compounder with a differentiated business with revenue visibility.

An example of a Life Cycle Changer in the portfolio is **GFL Environmental (GFL)**. GFL is a waste and environmental services business that has been undergoing a transformational change of its balance sheet. GFL went through a period of M&A over the past few years, which included inheriting sizable debt. Since then, GFL has committed to reducing that high leverage by 2025 by selling off non-core assets and focusing on generating high free cash flow. We believe this reduction in leverage will attract investor attention and that this stock may even become a "Growth Compounder" if GFL continues to delever and focus on their core business.

Natera (NTRA) represents an Aggressive Grower within the portfolio that has been owned for several years and highlights Alger's research efforts. NTRA is a leading diagnostics company focusing on cell-free DNA detection technology for blood-based tests. While starting in reproductive health, the company has utilized its IP and aggressive expanded into both the oncology and organ transplant markets. The company's Signature MRD (minimal residual disease) platform which identifies the genetic mutations of cancer cells in the patients blood is quickly being adopted as a best practice within cancer treatment protocols and new products focused on early cancer detection will further advance their market position.

What Lies Ahead for the Alger Mid Cap Growth Portfolio?

The core of the Alger Mid Cap Growth portfolio will continue to consist primarily of compounding growth companies that have the potential to offer robust total returns, encompassing organic growth, mergers and acquisitions, and share repurchases. Additionally, the portfolio will place emphasis on investments in high-quality companies across various sectors.

To identify unique opportunities, the portfolio will search diligently for "diamonds in the rough"—high-quality companies in underperforming areas of the market. Furthermore, the portfolio aims to include companies benefiting from innovations such as artificial intelligence, automation, robotics, labor competition, and renewable energy. Over the coming years, the strategy seeks to maintain a volatility profile in line with or lower than the benchmark, while also achieving a low overall turnover profile, demonstrating a focus on tax efficiency. As a result, we strive to achieve a relatively lower tracking error, providing investors with a smoother ride and reduced portfolio volatility.

The Russell Midcap® Growth Index measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap Index companies with higher growth earning potential as defined by Russell's leading style methodology. The Russell Midcap Growth Index is constructed to provide a comprehensive and unbiased barometer of the mid-cap growth market.

The Russell 2000® Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher growth earning potential as defined by Russell's leading style methodology. The Russell 2000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment.

S&P 500®: An index of large company stocks considered to be representative of the U.S. stock market. The S&P MidCap 400® Index is a market capitalization weighted benchmark index made up of 400 companies.

The S&P SmallCap 600 is a stock market index composed of approximately 600 small-cap US companies, designed to represent the performance of the broader small-cap 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. **Past performance is no guarantee of future results.**

FactSet is an independent source, which Alger believes to be a reliable source. FAM, however, makes no representation that it is complete or accurate. Alger pays compensation to third party marketers to sell various strategies to prospective investors.

Sortino ratio is a risk-adjusted metric that measures an investment's return relative to its downside risk.

Treynor ratio is a performance metric that measures how much excess return a portfolio generates for each unit of risk. It's also known as the reward-to-volatility ratio.

The following positions represent assets under management for the Alger Mid Cap Growth Strategy as of December 31, 2024: HEICO Corp, 2.29%; GFL Environmental, Inc., 4.62%; Natera, Inc, 2.27%.