

High-Conviction Small Caps

AMY ZHANG, CFA
Senior Vice President
Portfolio Manager

Small cap investing and a focused strategy form a powerful combination. A focused strategy generally holds less than 50 stocks and contains only high-conviction positions. In the small cap category, we look for exceptional small companies experiencing Positive Dynamic Change that have the potential to become successful large companies. Stock selection is our competitive advantage. We are benchmark agnostic, as we make investment decisions based on in-depth, fundamental, bottom-up research— not the benchmark. As a result, the portfolio has very high active share.

One of the key benefits of employing a focus strategy is that we know the companies within the portfolio exceedingly well. Owning a relatively small number of positions enables us to become experts on the companies in the portfolio. For us, truly understanding what we invest in is of paramount importance. With a focused portfolio, we know what we own through and through, and can pay acute attention to our holdings, which leads to high conviction, bigger position sizes and potentially more alpha generation. Being in the small cap space, we are more likely to unearth companies early in their corporate lifecycle that are under the radar and less followed by Wall Street analysts. We have a



differentiated view and aim to invest in our highest conviction names regardless of sector.

In our world, risk is investing in something that we don't understand well. By focusing on fewer companies and knowing them really well, we reduce the risk of our investments. Moreover, we keep volatility lower by investing in high-quality companies with a wide moat, strong cash flow generating capabilities and little or no debt. Wide moat companies are leaders in their given industries and have highly defensible positions, which are often demonstrated by high profit margins. They also have a large and expanding addressable market allowing for long-term growth. Additionally, we want companies to have a financial cushion rather than rely on borrowing to grow the business.

Investing in small cap stocks using a high-conviction, focused strategy is an important part of Alger's approach in seeking to generate attractive risk-adjusted returns.

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