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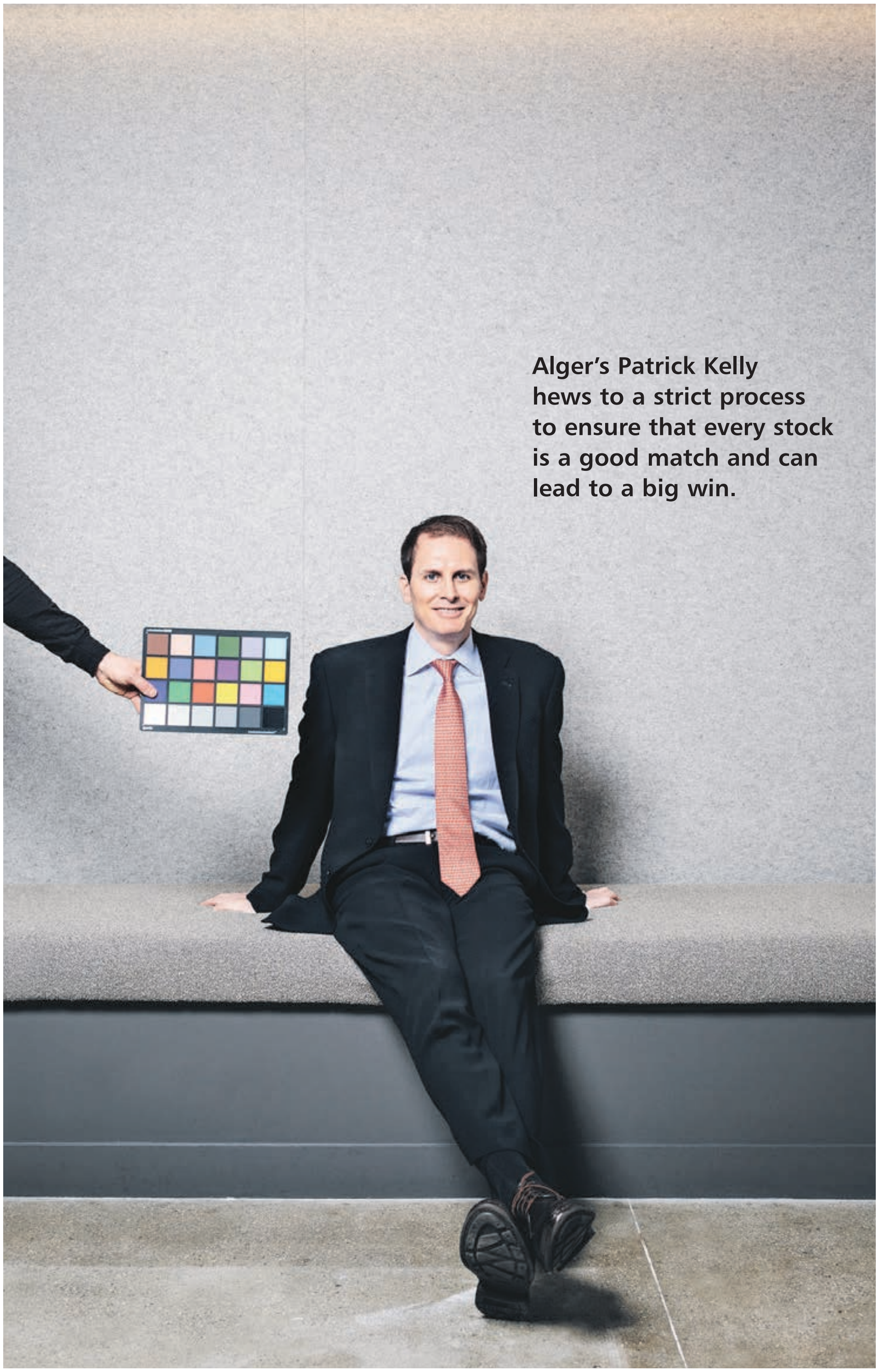

Alger's Patrick Kelly hews to a strict process to ensure that every stock is a good match and can lead to a big win.

Talking With
Patrick Kelly

Portfolio Manager,
Alger Spectra, Alger Capital Appreciation

Ahead Of The Game

by Leslie P. Norton

Money management is like professional sports: Teams must operate at peak performance in brutally competitive environments where victories are short-lived. It's why some former athletes do so well in the money-management game. Subsuming large egos to the greater good is one of the tasks of any coach, as is making sure that successful plays are repeatable – and that individual victories turn into a winning streak.

It's all about process, says Patrick Kelly, a portfolio manager with New York-based Alger Management and an avid reader of books by legendary professional coaches. If you obsessively follow a winning process, the score takes care of itself, he says. The latter phrase is the title of a book by the great San Francisco 49ers coach Bill Walsh, which Kelly hands out to co-workers and anyone who wants to understand him. "Having the best process maximizes opportunities and minimizes mistakes," says Kelly.

The fruits of his labors can be seen in his track records managing the $4.7 billion Alger Spectra fund (ticker: ASPCX) and $3.6 billion Alger Capital Appreciation fund (ALARX). Over the 10 years ended in December, when Kelly celebrated a decade at the helm of both, they ranked among the 10 best-performing stock funds in the U.S. Of both funds, Morningstar writes, "Manager Patrick Kelly is this fund's most valuable asset."

(over please)

Alger Spectra

	Total Returns 1-Yr	3-Yr	5-Yr
Alger Spectra /ASPCX	14.9%	18.0%	16.5%
Russell 3000 Growth	14.8	16.2	15.6

Top 10 Holdings	Ticker	% of Portfolio
Apple	AAPL	6.12%
Facebook	FB	4.45
Actavis	ACT	3.77
Google	GOOG	2.69
Microsoft	MSFT	2.30
Gilead Sciences	GILD	2.09
Honeywell International	HON	2.01
Visa Class A	V	2.00
HD Supply	HD	1.83
Thermo Fisher Scientific	TMO	1.71
Total:		**29.0%**

Holdings are as of 12/31/14. Returns are as of 1/12/15.
Sources: Monrningstar; Alger Managment

It's a sweet victory for Kelly, 39, a Delaware native who played just about every sport while growing up, including Division 1 soccer at Georgetown University. After graduating in 1997, Kelly joined a training program at investment bank S.G. Cowen. Two years later, he joined Alger as a technology analyst. Then came the horrible events of Sept. 11, 2001. Alger was based in the Twin Towers, and the firm lost most of its staff, including David Alger, Spectra's manager and the firm's chief executive. Kelly was on the West Coast, attending a conference. Led by tech analyst Dan Chung, who became chief investment officer and CEO, the firm rebuilt. Kelly was named to run the two funds in 2004; the firm now has $23 billion in stock mutual funds. CEO Chung says of Kelly: "He is a true player-coach. He sets a very high standard."

Then as now, Alger Spectra buys shares of companies – small and large – that have higher-than-average earnings growth, or are about to benefit from a positive change, such as a product introduction. Spectra can sell up to 10% of its assets short. Capital Appreciation buys large-company shares. The two own many of the same stocks.

Each of the firm's 36 analysts pitches ideas to portfolio managers. Kelly employs a version of the Socratic method, in which he points out inconsistencies and lapses in logic. The analysis is rigorous. An analyst must publish price targets for several periods, create his own cash-flow models, and conduct proprietary surveys. Valuation work is detailed and deep. Says Kelly: "If we get distorted on the valuation, we get distorted on the stock."

U.S. stocks look good, Kelly observes, given the increasingly sustainable strength of the economy, low inflation, low interest rates, and low oil prices, all big positives for the U.S. consumer. Investment spending is rising, too. And companies are returning cash to investors through dividends and buybacks. Meanwhile, the strong dollar is a benefit for the weaker economies and makes buying foreign assets cheaper. "It's a great time for American companies trying to expand," says Kelly. Blackstone (BX), for instance, has scarfed up distressed assets in Europe. Royal Caribbean Cruises (RCL) is benefiting from falling oil prices, the reviving U.S. economy, and opportunities for increased travel from China and other parts of Asia.

Even after recent big gains, many of last year's winners still have room to run. One is Actavis (ACT), which after a flurry of acquisitions – including Forest Laboratories and Allergan last year – has emerged as one of the 10 largest global pharmaceutical companies. That scale makes each new acquisition more accretive, Kelly says, because Actavis can "bring them into its distribution platform, cut costs, and increase revenue." At $279 last week, Actavis fetched 10 times its earnings-per-share forecast. Kelly says it's worth 30% more, and that will come as Actavis shifts from "being a pure generics company to a branded pharmaceutical with long-duration assets."

Facebook (FB), another favorite, is grabbing market share in global online advertising, and it should see further gains. Its share of online ad spending is still just 8%, even though it represents 20% of people's time spent on the Internet. "We look for dynamic-change stories, typically a market-dominating company that is taking share. Facebook has demonstrated the ability to capitalize on that change," Kelly says. "It is just at the early stages of really taking share from TV advertising budgets." Its stock, recently at $76, should rise at least 20%, he adds.

Food-delivery service GrubHub (GRUB) is also "a big beneficiary of mobile Internet adoption, as 50% of the orders are made through mobile devices." As 95% of the takeout market has yet to transition to mobile ordering, says Kelly, GrubHub will benefit as it becomes more commonplace. Its stock is worth 25% more than its recent price of $38, he contends.

Then there's Yahoo! (YHOO), which recently announced it would spin off its hugely valuable stake in Alibaba Group (BABA) to shareholders in a tax-free transaction this year. Even if Yahoo's core business is a work in progress, Kelly believes the market isn't recognizing its value. At a multiple of five times 2015 cash flow, core Yahoo! is worth $5.50 a share. Yahoo! also has more than $7 a share in net cash, he points out, and a stake in Yahoo! Japan that is worth close to $5.

To be sure, Kelly's funds aren't for everyone. His technology roots are evident; both funds have 30% of their assets in the sector, more than their competitors and the S&P 500. Both funds can be volatile, and turnover is high, at 150%. Alger's fees are also high – both funds have expense ratios above 1.2%. Still, as Morningstar notes, returns have been consistently strong. And Coach Kelly is trying hard to have that winning streak continue. ■

ALGER

This article reprint, originally published by Barron's on February 14, 2015, is considered sales literature for the Alger funds mentioned only and not for any other products shown. For the period ending December 31, 2014, the Alger Spectra Fund Class A and Capital Appreciation Funds returned the following:

Average Annual Total Returns (as of 12/31/14)

	YTD	1 Year	3 Year	5 Year	10 Year
Alger Spectra – Class A					
Without Maximum Sales Charge	12.28%	12.28%	21.68%	15.87%	13.02%
With Maximum Sales Charge	6.38%	6.38%	19.51%	14.62%	12.41%
Total Fund Operating Expenses Per Prospectus Dated 3/1/14	1.52%				
Alger Spectra – Class C					
Without Maximum Sales Charge	11.41%	11.41%	20.74%	14.98%	12.20%
With Maximum Sales Charge	10.44%	10.44%	20.74%	14.98%	12.20%
Total Fund Operating Expenses Per Prospectus Dated 3/1/14	2.28%				
Alger Capital Appreciation Fund - Class A					
Without Maximum Sales Charge	13.12%	13.12%	21.60%	15.03%	11.70%
With Maximum Sales Charge	7.19%	7.19%	19.42%	13.80%	11.11%
Total Fund Operating Expenses Per Prospectus Dated 3/1/14	1.26%				
Alger Capital Appreciation Institutional Fund - Class I					
Without Maximum Sales Charge	13.30%	13.30%	21.74%	15.17%	11.71%
With Maximum Sales Charge	N/A	N/A	N/A	N/A	N/A
Total Fund Operating Expenses Per Prospectus Dated 3/1/14	1.19%				

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. For performance data current to the most recent month-end, visit us at www.alger.com or call (800) 992-3863. Performance figures assume all distributions are reinvested. Returns after the maximum sales charge reflect a front-end sales charge on Class A Shares of 5.25%.

On 9/24/08, the Spectra Fund changed its name to Alger Spectra Fund, and the Fund's Class N shares were redesignated as Class A shares. The Fund operated as a closed end fund from 8/23/1978 to 2/12/1996. The calculation of total return during that time assumes dividends were reinvested at market value. Had dividends not been reinvested, performance would have been lower. Historical performance shown is that of the Fund's Class N shares, which were redesignated as Class A shares on 9/24/08.

The S&P 500 Index is an unmanaged index generally representative of the U.S. stock market without regard to company size. Investors cannot invest directly in any index. Index performance does not reflect deduction for fees, expenses, or taxes. 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. Growth stocks tend to be more volatile than other stocks as the 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. Foreign investing involves special risks including currency risk and risks related to political, social, or economic conditions. Small- and mid-capitalization stocks are subject to greater risk than larger stocks owing to such factors as limited liquidity, inexperienced management and limited financial resources. The Funds can leverage (borrow) to achieve its 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, however, cause the Funds' net asset value to decrease more quickly than if the fund had not borrowed. In order to engage in a short sale, the Alger Spectra Fund arranges with a broker to borrow the security being sold short. In order to close out its short position, the Alger Spectra Fund will replace the security by purchasing the security at the price prevailing at the time of replacement. The Alger Spectra Fund will incur a loss if the price of the security sold short has increased since the time of the short sale and may experience a gain if the price has decreased since the short sale. There are additional risks when investing in an active investment strategy, such as increase short term trading, additional transaction costs and potentially increased taxes that a shareholder may pay, which can lower the actual return on an investment.

As of 12/31/2014, the securities mentioned in this reprint represented the following as a percent of Alger's assets under management: Blackstone Group LP (1.33%), Royal Caribbean Cruises Ltd. (0.80%), Actavis, Inc. (3.03%), Facebook, Inc. (3.62%), GrubHub Inc. (0.43%), Yahoo! Inc. (1.10%), Alibaba Group Holding Ltd (0.09%).

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, Incorporated, Member NYSE Euronext, SIPC. NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.