



# The Changing Face of the U.S. Economy

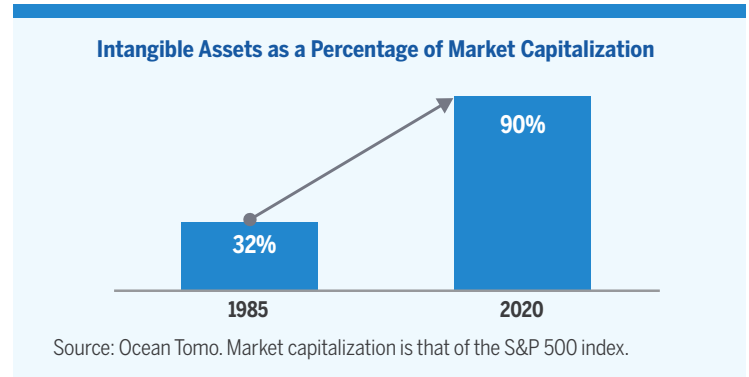
Price-to-book value is the primary characteristic that drives approximately \$4 trillion of growth and value style classification. Unfortunately, we believe this metric is not functioning as intended and may be driving the long-term underperformance of value stocks.

## ▶ What Is Wrong with Book Value?

More than ever before, companies' market values are driven by intangible assets, such as patents, brands, and R&D (see Figure 1). These assets, such as internally developed artificial intelligence (AI) software, are typically expensed and are not included on companies' balance sheets.

We believe book value, which generally doesn't account for intangible assets, is a less accurate measure of a firm's asset value and its earnings power. This may be driving the poor performance of low price/book stocks as new economy companies—growth companies—have more intangible assets than old economy companies according to the Bureau of Economic Analysis.

Figure 1: Companies' Market Values Now Driven by Intangible Assets

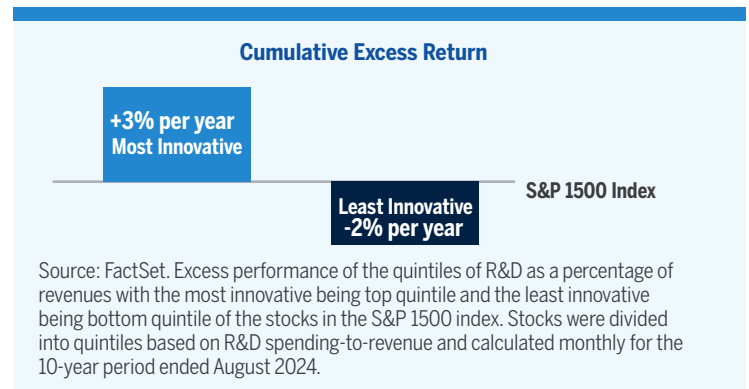


## ▶ Innovation Has Driven Outperformance

We believe the most significant contributor to this shift is innovation, which usually shows up in the form of intangible assets. In our opinion, innovation is the most powerful force in the economy.

Research shows that the most innovative companies, which may be defined as those companies with a high ratio of annual R&D investment to revenue, have grown their sales and earnings faster than the least innovative companies (see Figure 2).

Figure 2: Innovative Companies Have Outperformed Over the Past Decade



## ▶ Alger Has Expertise Investing in Innovation

We believe we are seeing the changing face of the U.S. economy as companies shift from tangible to intangible assets. In our view, this shift underscores the accelerating pace of innovation, reshaping industries through widespread digitalization, sustained growth in cloud computing, and ongoing advancements in AI that could potentially boost economic productivity over the long run. Our emphasis on innovation, as measured by R&D expenditures relative to revenue in our portfolios' holdings, is evident across our product lineup (see Figure 3).

Our team of analysts research companies to value what may—or may not be—included on their financial statements. We believe our original, bottom-up research process can help us find growth stocks that should benefit from innovation, while avoiding value stocks that appear cheap and may simply be victims of change.

Figure 3: Emphasis on Innovation Across Our Product Line-up



Source: FactSet – R&D % of revenue weighted median data as of September 30, 2024. Data is for mutual fund products.

**Investing in innovation is not without risk and there is no guarantee that investments in research and development will result in a company gaining market share or achieving enhanced revenue.**

The views expressed are the views of Fred Alger Management, LLC ("FAM") and its affiliates as of September 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. A significant portion of assets may be invested in securities of companies in related sectors, and may be similarly affected by economic, political, or market events and conditions and may be more vulnerable to unfavorable sector developments. Investing in companies of small and medium capitalizations involve the risk that such issuers may have limited product lines or financial resources, lack management depth, or have limited liquidity. Assets may be focused in a small number of holdings, making them susceptible to risks associated with a single economic, political or regulatory event than a more diversified portfolio. Active trading may increase transaction costs, brokerage commissions, and taxes, which can lower the return on investment. Foreign securities and Emerging Markets involve special risks including currency fluctuations, inefficient trading, political and economic instability, and increased volatility. Cash positions may underperform relative to equity and fixed-income securities. Options and Short sales could increase market exposure, magnifying losses and increasing volatility. Assets may be invested in Financial Derivatives Instruments (FDIs) such as Total Return Swaps (TRS) or options, which involve risks including possible counterparty default, illiquidity, and the risk of losses greater than if they had not been used. Issuers of convertible securities may be more sensitive to economic changes. Leverage increases volatility in both up and down markets and its costs may exceed the returns of borrowed securities.

**Investing in innovation is not without risk and there is no guarantee that investments in research and development will result in a company gaining market share or achieving enhanced revenue.** Companies exploring new technologies may face regulatory, political or legal challenges that may adversely impact their competitive positioning and financial prospects. Also, developing technologies to displace older technologies or create new markets may not in fact do so, and there may be sector-specific risks as well. As is the case with any industry, there will be winners and losers that emerge and investors therefore need to conduct a significant amount of due diligence on individual companies to assess these risks and opportunities. **Companies involved in, or exposed to, AI-related businesses may have limited product lines, markets, financial resources, or personnel as they face intense competition and potentially rapid product obsolescence.** These companies may be substantially exposed to the market and business risks of other industries or sectors and may be adversely affected by negative developments impacting those companies, industries, or sectors, as well as by loss or impairment of intellectual property rights or misappropriation of their technology. Companies that utilize AI could face reputational harm, competitive harm, and legal liability, and/or an adverse effect on business operations as content, analyses, or recommendations that AI applications produce may be deficient, inaccurate, biased, misleading or incomplete, may

lead to errors, and may be used in negligent or criminal ways. Companies exploring new technologies may face regulatory, political or legal challenges that may adversely impact their competitive positioning and financial prospects.

**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. The S&P Composite 1500 is an unmanaged index that covers approximately 90% of the U.S. market capitalization. Russell 1000® Index measures the performance of the large-cap segment of the U.S. equity universe. Russell 2000 Index is an unmanaged index considered representative of small-cap stocks. 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.**

Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes and/or Russell ratings or underlying data and no party may rely on any Russell Indexes and/or Russell ratings and/or underlying data contained in this communication. No further distribution of Russell Data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication.

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. Copyright 2024 S&P Dow Jones Indices LLC, a subsidiary of S&P Global Inc. and/or its affiliates. All rights reserved. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. 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.

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

**Before investing, carefully consider a Fund's investment objective, risks, charges, and expenses. For a prospectus and summary prospectus containing this and other information or for a Fund's most recent month-end performance data, visit [www.alger.com](http://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, LLC. NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.**