ALGER

The Changing Face of the U.S. Economy

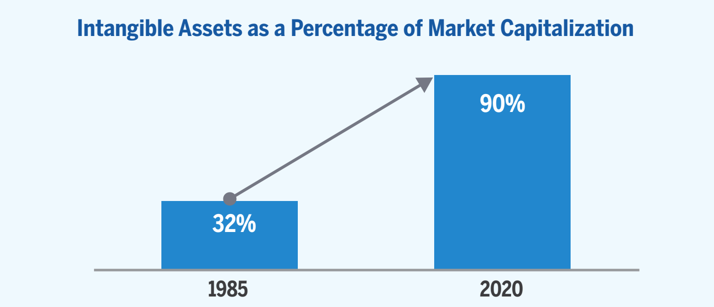
Price-to-book value is the primary characteristic that drives approximately $4 trillion of growth and value style classification. Unfortunately, we believe this metric is not functioning as intended and may be driving the long-term underperformance of value stocks.

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**



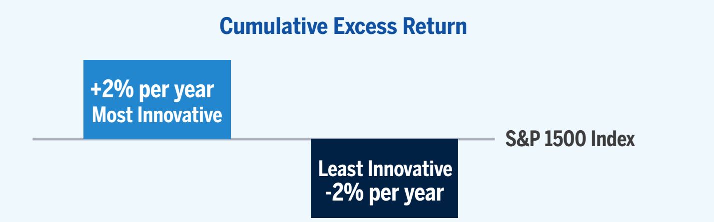
Source: Ocean Tomo. Market capitalization is that of the S&P 500 index.

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**



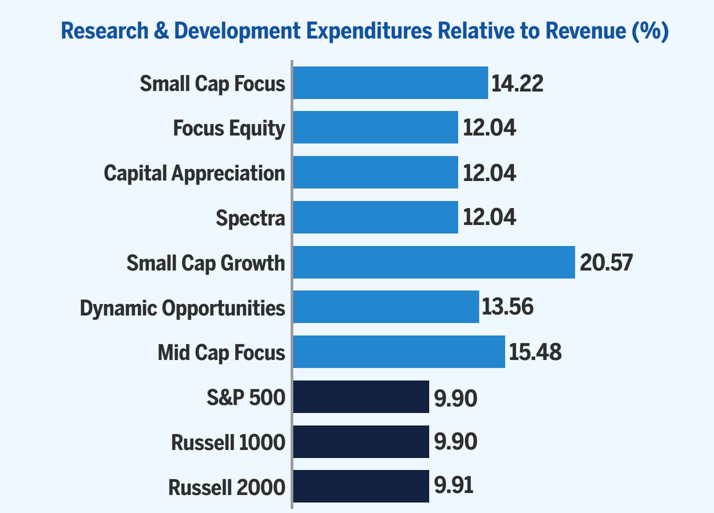
Source: FactSet. Excess performance of the quintiles of R&D as a percentage of revenues with the most innovative being top quintile and the least innovative being bottom quintile of the stocks in the S&P 1500 index. Stocks were divided into quintiles based on R&D spending-to-revenue and calculated monthly for the 10-year period ended May 2025.

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 June 30, 2025. 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.

Unlock Your Growth Potential.SM

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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.

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