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## Business

# Riding Small Companies to Big Returns

Making smart bets on small- and mid-cap growth stocks propelled three funds.



COURTESY OF ALGER

Alger SMid Cap Focus



Alger SMid Cap Focus

+30.6%

Mid-cap growth

+19.1%

By TIM GRAY

Three of the first quarter's top-performing mutual funds won big by favoring small and midcap growth stocks, toting up quarterly returns of 25 percent or more.

### Alger SMid Cap Focus Fund

Matthew A. Weatherbie, one of the managers of the Alger SMid Cap Focus Fund, has been chasing growth stocks even longer than Ms. Zevenbergen. His investment career began in the '70s, and he ran Putnam Voyager, then a well-known fund, starting in 1983. He left Putnam to start his own investment company in 1995, and he has managed the Alger fund since 2017. (Alger Associates acquired Mr. Weatherbie's company in 2017.)

Like Ms. Zevenbergen, he said his investment philosophy has remained consistent.

"There have been some tweaks over time, but the basic process is the same," he said. He and his co-managers seek companies in a growth sweet spot, he said. "They've been in business long enough to survive the perils of infancy, but they've got a long runway of growth ahead of them."

Holdings also must have "a competitive moat around the business, a strong balance sheet, high inherent profitability and a high-quality management team," he said.

To assemble the portfolio, the fund's managers and analysts collaborate to identify 50 holdings that meet these criteria. Mr. Weatherbie and his co-portfolio managers — H. George Dai and Joshua D. Bennett — next take an unusual step.

They divide the portfolio into three baskets. The managers then independently evaluate the 50 stocks, each determining the portion of the fund's assets dedicated

to each stock in his basket. As a result, the fund's largest stakes are the stocks most favored by all three.

"Why is Chegg or FirstService a top five holding?" Mr. Weatherbie asked. "Because each of us has determined that those are high-conviction names."

Chegg is an education-services company, while FirstService is a property manager and service provider for condos and cooperatives.

Mr. Bennett said both companies exemplify something the managers hunt for: They're fast growers in "mundane markets" not associated with zippy stocks in the way, say, consumer electronics and online entertainment are. Mr. Weatherbie added: "Our process enables us to identify hidden gems in mundane industries."

The Alger fund, whose A shares have an expense ratio of 1.33 percent, returned 30.58 percent in the first quarter.

This article reprint, originally published by The New York Times on April 12, 2019, is considered sales literature for the Alger funds mentioned only and not for any other products shown. Please note that The New York Times is an independent publication and the performance and ratings cited in the article do not represent the experience of any individual investor. For the period ending March 31, 2019, the Alger SMid Cap Focus Fund (the "Fund") returned the following:

#### Average Annual Total Returns (%) (as of 3/31/19)

	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
<b>Class A</b> (Incepted 05/08/02)						
Without Sales Charge	30.44	21.55	23.52	12.26	16.71	10.05
With Sales Charge	23.60	15.20	21.32	11.06	16.08	9.70
<b>Class Z</b> (Incepted 12/29/10)	30.58	22.03	23.98	12.64	—	12.75
<b>Russell 2500 Growth Index</b>	18.99	7.54	15.60	9.72	17.50	(Since 05/08/2002) 9.58 (Since 12/29/2010) 12.10
<b>Morningstar Percentile Rank</b> (Mid-Cap Growth) Based on Total Returns						
<b>Class A</b>	—	3% 15/615	3% 12/555	10% 47/495	27% 99/352	—
<b>Class Z</b>	—	2% 11/615	2% 7/555	8% 34/495	—	—
Total Annual Operating Expenses by Class (Prospectus Dated 3/1/19)		Without Waiver: With Waiver:	A: 1.33% —	Z: 1.00% 0.99%		

Fred Alger Management, Inc. has contractually agreed to waive fees or to reimburse Fund expenses (excluding acquired fund fees and expenses, dividend expense on short sales, borrowing costs, interest, taxes, brokerage and extraordinary expenses) through February 28, 2021 to the extent necessary to limit the annual operating expenses of Class Z to 0.99% of the class's average daily net assets. This expense reimbursement may only be amended or terminated prior to its expiration date by agreement between Fred Alger Management, Inc. and the Fund's Board of Trustees, and will terminate automatically in the event of termination of the Investment Advisory Agreement. Fred Alger Management, Inc. may, during the first year of the expense reimbursement contract, recoup any expenses waived or reimbursed pursuant to the expense reimbursement contract to the extent that such recoupment would not cause the expense ratio to exceed the lesser of the stated limitation in effect at the time of (i) the waiver or reimbursement and (ii) the recoupment after the repayment of the recoupment is taken into account.

Only periods greater than 12 months are annualized.

Prior to August 30, 2017, the Fund followed different investment strategies under the name "Alger SMid Cap Growth Fund" and prior to March 1, 2017 was managed by different portfolio managers.

**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. Performance figures assume all distributions are reinvested. Returns with sales charges reflect a maximum front-end sales charge on Class A Shares of 5.25%. For performance current to the most recent month end, visit [www.alger.com](http://www.alger.com) or call 800.992.3863.**

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The Russell 2500® Growth Index measures the performance of the small to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher growth earning potential as defined by Russell's leading style methodology. The Russell 2500 Growth Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap growth market. Investors cannot invest directly in any index. Index performance does not reflect deductions for fees, expenses or taxes. Note that comparing the performance to a different index might have materially different results than those shown. The performance data quoted represents past performance, which is not an indication or a guarantee of future results.

As of March 31, 2019, the securities mentioned in this reprint represent the following as a percentage of Alger's assets under management: Chegg, Inc., 0.53%; FirstService Corp., 0.40%.

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