

# Alger Small Cap Focus Fund

3rd Quarter 2020 As of September 30, 2020

## Investment Strategy

Primarily invests in a focused portfolio of approximately 50 holdings of small cap companies identified through our fundamental research as demonstrating promising growth potential.

## Portfolio Managers



**Amy Zhang, CFA**  
Executive Vice President  
Portfolio Manager  
*25 Years Investment Experience*

## Benchmark

Russell 2000 Growth

## Ticker Symbol

Class A	<b>AOFAX</b>
Class C	<b>AOFCX</b>
Class I	<b>AOFIX</b>
Class Y	<b>AOFYX</b>
Class Z	<b>AGOZX</b>

## Highlights

- During the quarter, the largest portfolio sector weightings were Health Care and Information Technology. The largest sector overweight was Information Technology. The portfolio had no exposure to Energy, Consumer Staples, Real Estate or Utilities and negligible exposure to Communication Services and Financial Services.
- The Health Care sector provided the greatest contribution to relative performance while the Industrials and Consumer Discretionary were among the sectors that detracted from results.

## Market Environment

The market rally that started in March continued in July and August with the S&P 500 Index recording a gain of more than 50% from the first quarter market low to early September. Investor sentiment abruptly shifted in September, but despite the ensuing market decline, the S&P 500 and Russell 2000 Growth indices gained 8.93% and 7.16%, respectively, for the third quarter. Markets were initially supported by Federal Reserve policy, large fiscal stimulus programs and strengthening economic data following the global recession triggered by the Covid-19 pandemic. After peaking in May, U.S. unemployment numbers improved while monthly retail sales (ex food services) climbed 5% year over year in June, July and August following earlier declines. Housing starts and the median sale price for existing homes also strengthened considerably while Federal Reserve officials signaled a willingness to maintain low interest rates. Investor optimism resulted in economically sensitive sectors such as Materials, Consumer Discretionary and Industrials leading for the quarter despite shifting sentiment in September driven, in part, by the inability of Congress to produce a late summer round of stimulus. The resulting volatility was intensified by profit taking.

During the quarter, we continued to observe broad themes that are creating attractive investment opportunities—corporations are digitizing their operations, cloud computing is growing and supporting innovation and artificial intelligence is allowing businesses to be more productive and efficient. In the Health Care sector, the new product pipeline is robust. We also continued to consider the Principles for Responsible Investment when analyzing companies.

## Portfolio Update

Class A shares of the Alger Small Cap Focus Fund underperformed the Russell 2000 Growth Index during the third quarter of 2020. Natera, Inc., Cryoport, Inc. and Veeva Systems Inc. were among the top contributors to performance.

- Natera is a leading provider of genetic diagnostic tests used in the large, under-penetrated reproductive medicine, oncology and organ transplant markets. Natera's disruptive technology is augmented by software algorithms, bioinformatics and artificial intelligence to improve the detection of diseases and deliver clinically actionable information, thereby addressing significant unmet medical needs and saving lives. Natera is a highly innovative company that consistently invests 20% of its revenue in research and development. Natera stock outperformed in the third quarter after the company reported stronger-than-expected results for the three-month period ended June 30. In addition, the two leading reproductive medicine societies, the American College of Obstetricians and Gynecologists and the Society for Maternal Fetal Medicine, issued a joint opinion that recommends non-invasive prenatal testing for all pregnancies (versus only for high-risk pregnancies, which are 20% of total pregnancies). Natera also received final Medicare coverage for its Signatera molecular residual test for patients with stage II or stage III colorectal cancer. Natera believes the colorectal cancer market for Signatera could involve a million tests annually. Finally, on September 24, Medicare issued a draft local coverage determination for the use of the Signatera MRD test for immunotherapy response monitoring, an important step toward opening a market that could potentially involve 800,000 tests a year market.



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- Cryoport provides temperature-controlled supply chain solutions to the life sciences industry. The company supports the global distribution of cellular-based materials and drug products, as well as other commodities like animal health vaccines and embryos for in vitro fertilization. These products need to be shipped at temperatures below  $-150^{\circ}\text{C}$  ( $-238^{\circ}\text{F}$ ). Cryoport's sophisticated, cloud-based logistics platform supports the management of shipments through a single interface, which includes order entry, courier management and near real-time shipment monitoring. These services are an integral part of the supply chain for Cryoport's customers. Cryoport's services are embedded in the manufacturing and delivery processes of all four commercially approved CAR-T therapies, which involve using genetically engineered T-cells to engage the body's immune system to fight cancer. Cryoport also supports approximately 45% of the more than 1,000 ongoing global regenerative medicine clinical trials. We believe demand for Cryoport's services is hitting an inflection point, with Cryoport's customers planning to seek regulatory approval of at least six new biologic drugs this year and more than 17 next year. Cryoport shares outperformed after the company announced in August that it is acquiring CRYOPDP and MVE Biological Solutions, which will nearly quadruple Cryoport's revenue from \$34 million as of last year to approximately \$160 million. The two acquisitions will be accretive and potentially accelerate the timeline for Cryoport becoming profitable while increasing the company's addressable market.
  - Veeva Systems is a leading provider of cloud-based solutions for the global life sciences industry. Veeva's key solutions are Commercial Cloud products, offering multi-channel customer relationship management software, and Veeva Vault, offering regulated content management for pharmaceutical and biotechnology companies. Shares of Veeva performed strongly after the company reported better-than-expected fiscal second quarter 2021 results and raised its fiscal-year 2021 earnings and billings guidance. Veeva's key growth driver continues to be strong adoption of Veeva Vault, with particular strength in the fiscal second quarter in its Quality Suite and Clinical Trial Management system. Veeva is making good progress on its recent acquisitions of Crossix, which provides a platform for optimizing health care marketing, and Physicians World, which provides a physicians' speaker bureau. Since the earlier days of the pandemic in March, Veeva has offered its Veeva CRM Engage products to life sciences customers for free to enable virtual sales visits. Veeva intends to convert a large portion of these new customers into annual subscription contracts next year, as virtual selling has become more important during Covid-19. Finally, Veeva announced the formation of a board committee to explore the conversion of Veeva into a for-profit public-benefit corporation. Veeva would be the first public company to make this change. We believe this potential change would align well with Veeva's existing culture and operations, that Veeva will still have the legal duty to maximize shareholder value and that the change could potentially create greater trust in Veeva to properly handle proprietary customer data.
- Alteryx, Inc., eHealth, Inc. and PROS Holdings, Inc. were among the top detractors from performance.
- Alteryx is the market leader in analytic process automation, or APA. Through its APA platform, Alteryx unifies analytics, data science and business process automation that democratizes access to data and analytics throughout business organizations. Shares of Alteryx underperformed because the Covid-19 pandemic continued to negatively impact sales cycles for the company, with some customers postponing or downsizing data analytics initiatives. We view these headwinds as transitory and note that Alteryx has quickly adapted its go-to-market strategy to better engage these budget-conscious customers through greater usage of short-term licenses. Longer term, we believe that Covid-19 is a tailwind for Alteryx as companies realize the need for better data and analytic capabilities to adapt to dynamic business environments. In August, Alteryx announced it continued to make progress operationally during the second quarter with partnership with Adobe and UiPath and three new product launches that we believe have increased the company's potential for generating revenue growth.
  - eHealth is a leading health insurance marketplace primarily focused on Medicare plans. Its technology and service platform provide consumer engagement, education and enrollment services. The marketplace offers consumers a broad choice of insurance products, including thousands of options for Medicare Advantage, Medicare Supplement and Medicare Part D prescription drug plans. eHealth also offers non-Medicare options from a diverse mix of health insurance carriers in the U.S. In July, eHealth reported better-than-expected financial results for the second quarter, but its stock still underperformed. eHealth has faced increased investor scrutiny of customer churn and its estimates of the lifetime value of an approved member. During its July report of its second quarter results, the company said it experienced higher-than-expected churn among customers who selected programs during open enrollment periods occurring in the fourth quarter of 2019 and the first quarter of 2020.
  - PROS is a leading provider of artificial intelligence-powered solutions that help companies price, configure and sell their products within the digital economy. During the second quarter, PROS continued to be negatively impacted by the pandemic, including some lengthening of sales cycles as enterprise buyers increased their scrutiny of potential new product acquisitions. PROS' high exposure to the travel segment has made this impact more acute compared to other software companies, and PROS has provided some forms of financial relief for its most-impacted customers. More positively, PROS has noted that its pipeline for its B2B offerings remains strong as the pandemic is accelerating modernization of B2B ecommerce. We believe that the headwinds to the travel segment are transitory and PROS' ability to drive long-term customer value in multiple end markets is attractive.

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The views expressed are the views of Fred Alger Management, LLC ("FAM") and its affiliates as of October 2020. 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. Holdings and sector allocations are subject to change.

**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. A significant portion of assets will be invested in technology and healthcare companies, which may be significantly affected by competition, innovation, regulation, and product obsolescence, and may be more volatile than the securities of other companies. Investing in companies of small 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.

The Board of Trustees of the Alger Small Cap Focus Fund has authorized a partial closing of the Fund effective July 31, 2019. Class A, C, I and Z Shares will be available for purchase by existing shareholders who maintain open accounts and new investors that utilize certain retirement record keeping platforms identified by Fred Alger & Company, LLC, the Fund's distributor. Class I and Z Shares will also be available for purchase by investors who transact with certain brokers identified by the distributor. Please check with your financial advisor regarding the availability of Class I and Z Shares for purchase at their firm. Class Y Shares will remain open to all qualifying investors.

**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. All returns assume reinvestment of dividends and are gross of withholding taxes where applicable. Returns with a maximum sales charge reflect a front-end sales charge on Class A Shares of 5.25%.**

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher growth earning potential as defined by Russell's leading style methodology. The Russell 2000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The S&P 500 Index is an index of large company stocks considered to be representative of the U.S. stock market. Investors cannot invest directly in any index. Index performance does not reflect deduction for fees, expenses, or taxes.

The following positions represented the noted percentages of portfolio assets as of September 30, 2020: CRYOPDP, 0.0%; MVE Biological Solutions, 0.0%; Crossix, 0.0%; Physicians World, 0.0%; Adobe, 0.0%; UiPath, 0.0%; Natera, Inc., 4.61%; Cryoport, Inc., 3.82%; Veeva Systems Inc Class A, 3.66%; Alteryx, Inc. Class A, 0.92%; eHealth, Inc., 0% ;and PROS Holdings, Inc., 1.04%.

**Before investing, carefully consider the Fund's investment objective, risks, charges, and expenses. For a prospectus and a summary prospectus containing this and other information about the Fund, call (800) 992-3863, visit [www.alger.com](http://www.alger.com), or consult your financial advisor. Read it carefully before investing. Distributor: Fred Alger & Company, LLC. Member NYSE Euronext, SIPC. NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.**