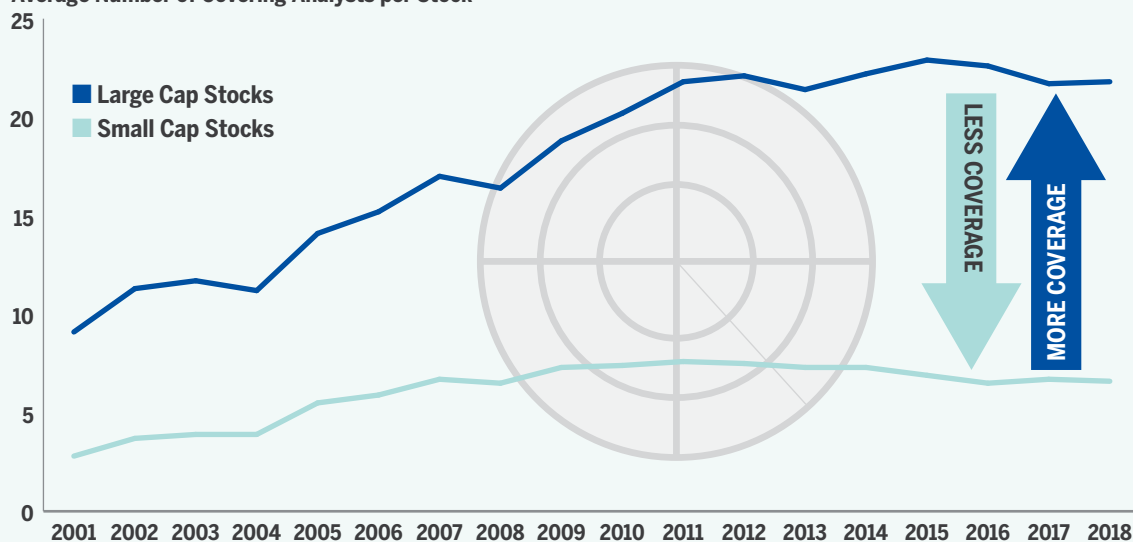


## Undiscovered Gems

Historically, small cap equities have attracted fewer Wall Street research analysts than large cap equities. The scarcity of small cap coverage creates opportunities for investors and portfolio managers who are committed to doing in-depth research on these companies.

### Smaller Companies Flying Under the Radar?

Average Number of Covering Analysts per Stock



Source: Alger analysis and FactSet. Small cap and large cap stocks are represented by the S&P 600 Index and S&P 500 Index, respectively.

- For a number of reasons, analyst coverage of public companies has generally narrowed over the years as a result of a greater number of independent research firms covering a shrinking pool of public companies. However, this narrowing has led to increased coverage of larger cap companies at the expense of small cap companies. Specifically, in 2003 there were eight more analysts on average covering a large cap stock than a small cap stock. Today, the average large cap company is followed by 22 analysts, while the typical small cap company is followed by just 7 analysts.
- The result of small cap companies receiving less coverage by Wall Street analysts is that portfolio managers who conduct in-depth proprietary research may have a better chance of identifying undiscovered opportunities. This may be one reason why over the 20-year period ended June 30, 2019, managers in the small cap category produced an average annualized three-year excess return that was 168 basis points greater than that of the large cap category.<sup>1</sup>
- There does not appear to be an end to the trend of Wall Street allocating more resources to large caps compared to small caps; therefore the opportunity for small cap portfolio managers (and the underlying shareholders) appears just as bright today as it did 20 years ago.

<sup>1</sup> Callan, Active vs. Passive Report, Second Quarter 2019. Large cap equity style managers vs. Russell 1000 and Small cap equity style managers vs. Russell 2000.

The views expressed are the views of Fred Alger Management, Inc. ("FAM") as of October 2019. These views are subject to change at any time and they do not guarantee the future performance of the markets, any security or any funds managed by Fred Alger Management, Inc. These views are not meant to provide investment advice and should not be considered a recommendation to purchase or sell securities.

The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The S&P 600 Index a stock market index that covers roughly the small cap range of U.S. stocks, using a capitalization-weighted index.

The Russell 1000 Index is an index of approximately 1,000 of the largest companies in the U.S. The Russell 2000 index is an index measuring the performance of approximately 2,000 smallest cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks. It is a market-cap weighted index.

This document is directed at investment professionals and qualified investors (as defined by MiFID/FCA regulations). It is for information purposes only and has been prepared and is made available for the benefit of investors. This document does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient, and is only intended for use by original recipients and addressees. The original recipient is solely responsible for any actions in further distributing this document and should be satisfied in doing so that there is no breach of local legislation or regulation. This document is not for distribution in the United States.

Any opinions expressed herein are those at the date this material is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated herein. We caution that the value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Investors should ensure that they fully understand the risks associated with investing and should consider their own investment objectives and risk tolerance levels. **Past performance is not an indication or guarantee of future performance.** Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Certain products may be subject to restrictions with regard to certain persons or in certain countries under national regulations applicable to such persons or countries. NOTABLY, THIS MATERIAL IS EXCLUSIVELY INTENDED FOR PERSONS WHO ARE NOT U.S. PERSONS, AS SUCH TERM IS DEFINED IN REGULATIONS OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT) AND WHO ARE NOT PHYSICALLY PRESENT IN THE UNITED STATES.

**Risk Disclosures:** Investing in the stock market involves certain risks, and may not be suitable for all investors. Growth stocks tend to 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. 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.

**Important Information for All Investors:** Alger Management, Ltd. (company house number 8634056, domiciled at 78 Brook Street, London W1K 5EF, UK) is authorised and regulated by the Financial Conduct Authority, for the distribution of regulated financial products and services. FAM and/or Weatherbie Capital, LLC, U.S. registered investment advisors, serve as sub-portfolio manager to financial products distributed by Alger Management, Ltd.

Alger Group Holdings, LLC (parent company of FAM) is not an authorized person for the purposes of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA") and this material has not been approved by an authorized person for the purposes of Section 21(2)(b) of the FSMA.

**Important Information for UK Investors:** The distribution of this material in the United Kingdom is restricted by law. Accordingly, this material is provided only for and is directed only at persons in the United Kingdom reasonably believed to be of a kind to whom such promotions may be communicated by an unauthorized person pursuant to an exemption under the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "FPO"). Such persons include: (a) persons having professional experience in matters relating to investments and (b) high net worth bodies corporate, partnerships, unincorporated associations, trusts, etc. falling within Article 49 of the FPO. Most of the rules made under the FSMA for the protection of retail clients do not apply, and compensation under the United Kingdom Financial Services Compensation Scheme will not be available.