

We maintain our view that the stock market is fundamentally sound and attractive – corporate earnings for the second quarter, which are now largely complete, continue to be better than expected – and that stocks are in a process of consolidating 2009's gains.

Fundamentals Improve As Investors Flee Equities

Fundamentals and investor emotions are the two primary drivers of market performance. At times, emotions dominate short-term market performance, while fundamentals drive the market's longer term direction. We expected 2010 to be a year of "policy uncertainty" with investors frustrated by a lack of clarity in domestic fiscal policies, health care reform, regulation of financial firms, and the conflicts in Afghanistan and Iraq.

During the second quarter, investors reacted as expected to such uncertainty by continuing to reduce their U.S. equity holdings and by increasing their allocations to cash and short term bonds. Headline grabbing events such as the sovereign debt crisis in European countries and China's efforts to moderate its growth contributed to investors' flight from equities. As a result, for the second quarter, the S&P 500 Index declined 11.4%, dropping almost directly after the conclusion of stellar first quarter corporate earnings season.

We maintain our view that the stock market is fundamentally sound and attractive – corporate earnings for the second quarter, which are now largely complete, continue to be better than expected – and that stocks are in a process of consolidating 2009's gains. We think it's time to "Buy the Dips." Whether the market has significant downside near term is something that no one will really know except in hindsight. But we believe it's quite likely that the market lows in July (around 1000 for the S&P 500) will ultimately be the trough level for this phase of the market cycle. These market lows may, and likely will, be tested again in this fragile, emotional and volatile phase of the market, but we think considerable opportunity exists for significant gains during the remainder of this year and into 2011.

According to Morningstar, an unusually long, multiyear run out of U.S. equities has continued this year, underscoring that the asset class is very much out of favor with investors. Encouragingly, as a result of stock underperformance and corporate earnings outperformance, we believe valuations are very attractive. Ultimately, the many positive factors driving the ongoing corporate recovery will reconnect with a market looking forward calmly, if not optimistically. When they do, we think investors on the sideline waiting for the "all clear" signal will have missed out on a significant portion of a new bull market. This could be a costly mistake. For example, investors who cashed out during the first week of July would have recognized losses of almost 10% for 2010 (based on the S&P 500's decline). Just three weeks later, the S&P 500 was up 9% from those July seller's lows, and down only 1.7% year to date. Similarly, investors who missed the beginning months of the bull market that started in the middle of 2004 missed more than half of the overall gains during the subsequent 18-month period. The market moves fast, and long-term success is built on discipline, focus and the will to stay the course when things are uncertain.

In the following commentary, we review some of the events of the second quarter in more detail and provide updates from two of Alger's Analysts on the Lodging and Energy sectors, which are two sectors that had a significant impact on capital markets during the second quarter.

Our research and monitoring of events and companies in China suggests that its government will soon relax economic policy to a more neutral, pro-growth, stance.

Global Concerns Grow

Fears that the debt crisis in Greece and Turkey might spread to other countries weighed heavily on equity markets. In Turkey, government austerity plans developed to ensure that sovereign debt could be serviced sparked riots as the euro depreciated and European banks became less willing to lend to one another. The concerns are noteworthy as the combined GDP of countries with the largest debt problems—primarily Portugal, Ireland, Greece and Spain—represents an estimated 35% of the combined GDP of euro zone members. European authorities have responded rapidly and a resolution of the debt problem could go a long way in improving investors' confidence in the region. That appears to already be happening.

In July, 91 European banks were "stress tested" by European regulators. Only seven failed. While the rigor of the stress test was subject to question, the results sparked bond and equity rallies in various European countries and a decline in the cost to insure against bank defaults. More encouraging, the decline in the euro has made goods manufactured within the region more affordable, helping the region become more competitive as an exporter. An increase in exporting activity—which is already occurring with some of the larger members of the euro zone—may help European countries grow their GDP and possibly their ability to pay down debt. In Germany, which is the largest member of the euro zone and a strong export-driven economy, combined industrial orders for April and May were 5.6% higher than for February and March. The country's manufacturing orders from businesses located outside of the euro zone, meanwhile, also picked up, and following the end of the second quarter, Germany's economic minister modestly raised the country's GDP growth estimate for 2010.

However, more important for our U.S. market outlook is China. During the first quarter of 2010, China's GDP expanded at a blistering annualized rate of 11.9%, fueling investors' hopes that the country's growth would support the ongoing global economic recovery. The World Bank dampened that exuberance in June when it lowered its estimate for China's 2010 GDP growth to 9.5% and to 8.5% for 2011. China has been adopting increasingly restrictive fiscal and economic policies since the fall of 2009 in an explicit effort to slow its economy and promote more sustainable long-term growth. Investors so far have been very pessimistic about China's ability to manage its economy, resulting in Chinese stocks underperforming equities of many other countries.

We are much more optimistic. Our research and monitoring of events and companies in China suggests that its government will soon relax economic policy to a more neutral, pro-growth, stance. China's record in fiscal and economic management for the past decade and through the most recent global financial crisis has been excellent in our view. While China has its share of challenges, we wouldn't bet against continued success. Most importantly, we think U.S. equities, especially those of companies with exposure to the positive dynamic of China's growth and influence across sectors, will benefit as this policy relaxation occurs. China's new five-year plan for its economy, with a focus on a rebalancing toward a more consumer-driven economy, will be a positive catalyst that is likely to occur before year-end.

U.S. Economic Growth Slows

Concerns that U.S. economic expansion slowed also surfaced during the second quarter, although some positive developments emerged. For example, retail sales rose for the seventh consecutive month in April. Yet, that trend eventually reversed, with sales declining 1.2% in May and 0.5% in June.

In real estate, sales of new and existing homes in March increased, with much of the activity driven by the April 30 expiration of the homebuyer tax incentive program. Following the expiration, a significant drop off in the housing market occurred, with a 33% decline in sales of new homes in May. June was also discouraging with sales of existing homes dropping 5.1%. While the housing market remains very weak, our analysis based on historical trends, the demographics of population growth and household formation suggests that current levels of new home construction are at an extreme low and, in the longer term, an unsustainably low level. With an overhang of foreclosed homes adding to supply, the lift may not be soon, nor uniform, across the U.S., but we think large drops in activity levels are unlikely from here. Prices, however, may be another matter, and we would not be surprised to see some further weakening due to high levels of housing inventory for sale in many (not all) markets.

Unemployment has remained stubbornly stuck at or above 9.5%, with artificial job creation from U.S. Census hiring being coupled with an increase in people unemployed but not looking for work at all – a perverse way of “lowering” the official unemployment statistic. However, while the job market continued to languish, personal income actually climbed 0.4% in May, a result of an increase in hours worked.

With a modest 0.2% increase in personal spending, Americans’ savings rate climbed to 4.0%. At the same time, Americans continued to pay down their debt. Total consumer debt, which excludes mortgages, sank \$9.1 billion in May to a seasonally adjusted \$2.41 trillion, according to the Federal Reserve. It was the 15th drop in the last 17 months. One would hope our elected representatives (on both sides) would take note and follow suit for our U.S. Government’s budget deficit and debt. In another encouraging development, business activity continued to pick up, with the Institute for Supply Management reporting growth in June, marking the 11th consecutive month of expansion in manufacturing.

Going Forward

For Alger, the current state of investor emotions overshadowing solid market fundamentals is creating attractive opportunities. Alger’s research driven process, we believe, is well suited to identify such opportunities in uncertain markets while also identifying corporations that are well positioned to benefit from changes in their industries and the economy. I thank you for your business and your continued confidence in Alger. I now present highlights from a recent conversation with Client Portfolio Manager Bill Rechter, Lodging Analyst Michael Melnyk and Energy Analyst Michael Young.

Respectfully submitted,



Daniel C. Chung
Chief Investment Officer

For Alger, the general trend of investor emotions overshadowing solid market fundamentals is creating attractive opportunities for our portfolio managers to purchase high quality companies at attractive valuations.

We currently believe that we will continue to underweight the oil service industry and continue to avoid taking positions in companies that are directly involved in the spill.

“State of the Sector” Discussion

BR: The Gulf of Mexico oil spill has been called one of the nation’s worst environmental accidents and it has sparked a selloff of many Energy sector companies. Investors, understandably, are struggling to assess its impact on the sector. Michael, what is your view on the matter?

MY: Typically, a sharp selloff in stocks driven by an unusual event, such as the oil spill, is an attractive entry point for investors. However, we believe the magnitude of this oil spill warrants continued caution. There is still some uncertainty surrounding this disaster and its long-term impact on the Gulf coast region and, most importantly for investors, its impact on the future direction of U.S. energy policy. Near term, we expect that spill related companies will experience significant revenue shortfalls and earnings misses during the second half of 2010 that the market has not yet fully discounted.

BR: Michael, do you think certain companies, such as those involved in oil spill remediation, may benefit from cleanup efforts in the Gulf?

MY: It is difficult to identify companies that will because many of them are quite small. Moreover, while some businesses may generate a short-term windfall from the cleanup activity, in the near future, they may face significant declines in their core business, which typically focuses on supporting drilling activities in the Gulf of Mexico.

BR: Do Alger portfolios have any significant positions in companies that are involved with the spill?

MY: So far, our portfolios have had very little exposure to the companies involved in the oil spill. We currently believe that we will continue to underweight the oil service industry and continue to avoid taking positions in companies that are directly involved in the spill.¹

BR: What are some of the more significant consequences of the spill on the Energy sector?

MY: I think that it will continue to have a serious impact on oil stock price performance for the next six to nine months. I sense that there will be significant revenue shortfalls and earnings misses for most Gulf of Mexico related companies over the second half of this year. And I don’t think the stock market is discounting that adequately right now. Share prices of oil companies, of course, have declined substantially, but I don’t think the lower prices fully reflect the potential slowdown in production of oil in the Gulf region.

I also believe that the spill will slow the rate of new investment in the Gulf of Mexico. It’s a little too early to take a really strong negative long-term view, but I am concerned that the spill could structurally impair development in the Gulf of Mexico for a long time to come. Oil drilling in the Gulf was really starting to increase and there was some serious money being invested in the region. For now, I have strong concerns about new regulations being created. If you start adding in new regulations that increase costs by making project cycles longer, then roughly as many as one third of potential projects, I estimate, may not get done. The oil companies are very disciplined about this and they know where their profit cutoff points are. So the spill could cause a big decline in exploration and development activity for the industry.

¹ As of June 30, 2010, the following companies involved in the Gulf of Mexico oil spill represented the following percentage of firm wide assets under management: Transocean Ltd., 0.06% and Cameron International Corporation, 0.06%.

BR: Since we are on the topic of oil, what is your overall view on the oil industry?

MY: We continue to have a constructive, but not bullish, view on oil. The price for oil went from about \$100 per barrel in 2008 to \$62 per barrel in 2009 and reached around \$77 dollars at the end of the second quarter. Our forecast calls for a price of \$90 per barrel in 2011. I'd say that's constructive because it's certainly moving upward, but in the scheme of things, it's not a significant change. Oil prices and forecasts can be highly volatile and can easily be off \$10 a barrel or so. Oil demand is generally recovering, but as much as 50% of the demand increase is driven by China's economic growth. At this point, I do not think it's prudent to take a big bet on China's economic growth (as the Chinese government is explicitly trying to slow its economy) and expect there to be no risk involved.

BR: What is your outlook for natural gas?

MY: We've had a bearish view for about two years and it has served our clients very well. The supply side on natural gas in North America is so robust that there has been a big decline in prices. And so far, there's been zero sign of any supply contraction taking place, so we think we will need a pullback in rig activity to improve the gas markets. And that process will be painful. It should, and likely will, happen in the second half of this year. If it doesn't happen then, it will just push the whole problem into 2011.

BR: Where do you see investment opportunities within the Energy sector?

MY: I am actually quite bullish on coal and iron ore. The supply demand dynamics and the pricing outlook for coal and iron ore are far more attractive than for oil. Existing contracts for coal, metallurgical coal and global iron ore have been established with considerable price increases for the materials. We think future contracts, therefore, will also be established at prices that are highly favorable for coal and iron ore producers.

BR: Are the price increases driven by increased steel demand?

MY: Yes, primarily. Metallurgical coal and iron ore are the primary ingredients in steel production. And we at Alger have an above average market outlook for world steel demand this year. Consensus has been calling for growth of 10 percent year-over-year, 2010 versus 2009. We've been looking at 14 percent.

After many years of looking at commodities, I feel the best stories are not necessarily demand-driven stories but ones in which there are supply constraints. Supply shortages are what drive prices. Even when demand is somewhat static, you can have huge outsized price increases if supply is constrained. Currently, metallurgical coal and iron ore are in relatively short supply. That is especially true for higher quality coal and iron ore.

BR: So what are some of the problems with ramping up production in metallurgical coal and iron ore? Is it hard to find it? Does it take a long time to get the mines online?

MY: It's all of the above and it's typical of the mining industry where it easily takes five to eight years from initial discovery to actual development. There are huge infrastructure constraints and costs. We are also talking about bulk commodities. The seaborne market part of the world export market for metallurgical coal is 250 million tons a year. Moving that amount of material on ships and railroads is a huge undertaking so you have supply constraints. For example, to open up a new mine in Western Australia, you have to put in the rail capacity to carry the coal to ports for export, which could take two or three years to build.

We continue to have a constructive, but not bullish, view on oil.

In particular, we look carefully for either superior business models with strong free cash flows that are not being recognized by the market or for hotel operators with unique or well positioned hotels that are undervalued relative to their real estate or properties' replacement values.

While coal and iron ore companies are attractive, we are continuing to search for other investment opportunities across the Energy and commodities industries. Over time, supply and demand characteristics can change, so we remain vigilant in order to find new opportunities for our clients.

BR: Michael, thank you for your views on the Energy sector. Let's now turn our attention to Michael Melnyk and the Hotel sector. Michael, what is your overall view of the Hotel sector?

MM: We've been much more constructive on the leisure and travel space. This year and late last year, we have seen an improvement in both consumer spending and, more importantly, in corporate spending. I met recently with chief financial officers from a number of hotel companies, and they say that U.S. occupancy rates have been improving and, recently, hotels have been able to increase their room rates. However, the stocks in the sector have significantly outperformed this year, up about 18% against a flat S&P 500, so we've become more selective on our holdings there. There are some fundamental reasons to be careful here as well, as the second half of 2010 could be a more difficult operating environment for many parts of the hotel sector. Of course, there are always interesting opportunities for investors who use an in-depth research process, which of course is Alger's hallmark. In particular, we look carefully for either superior business models with strong free cash flows that are not being recognized by the market or for hotel operators with unique or well positioned hotels that are undervalued relative to their real estate or properties' replacement values.

BR: New real estate construction, including the development of commercial properties, dropped considerably during the recession and is still below pre-recession levels. What impact has that had on the lodging sector?

MM: We are not seeing significant construction of new hotels at this time. That's a positive backdrop for the industry. Historically, cycles of expansion in the lodging sector have been killed by oversupply. In the past, oversupply occurred from overbuilding when demand was constant, which created a supply-demand imbalance. On the other hand, hotels planned and financed in the real estate boom are, in some areas like New York City, just now being completed and coming online in a market that is recovering, but still uncertain. We are carefully watching how this new supply is absorbed, that is, if it affects occupancy levels or room rates as an indicator of the health and future direction of hotel fundamentals.

BR: Has the weak euro influenced the Lodging sector?

MM: With the euro having declined, traveling to Europe has become more affordable, so certain markets may benefit from a pickup in U.S. travelers, which could make up for a decline in European travelers. The pickup in U.S. travelers may be particularly beneficial in markets such as Italy, where new construction of hotels is frequently curtailed for historical preservation or zoning restrictions.

BR: What type of characteristics do you look for in hotel companies and how has the depreciation of the Euro influenced your selection process?

MM: With the exception of a few positions with properties in the United Kingdom, we have been focusing on companies with U.S. properties that don't have a lot of exposure to

European travelers. Our positions generally have properties in supply constrained markets, such as New York and London, and they get a lot of business travel. The hotel properties are benefiting from strong occupancies and rate increases and this is only the beginning of the economic recovery.

BR: What is your outlook for hotels and gaming companies in gambling destinations such as Las Vegas and Atlantic City?

MM: Many gaming destinations, including Las Vegas and Atlantic City, are suffering from oversupply and decreased demand. Just a few years ago, properties in Las Vegas had average daily room rates of \$300 a night. Now, they are currently charging only \$100 to \$150 a night.

You also have an increasing number of gambling locations, with Atlantic City losing business to Pennsylvania and there is talk about allowing tribal gaming in Massachusetts and Kentucky. Ohio and Kansas have also approved plans for gambling.

BR: What other challenges exist for the gaming industry?

MM: Obviously, on the “demand” side, reduced consumer confidence is a large factor in a highly discretionary item like leisure travel and gambling. Net worth of consumers has been hit by the dramatic collapse in the real estate market. The unemployment rate is high. And, not to be dismissed, consumers today are largely hearing negative news about the economy from the media. So, even for consumers whose personal finances and job situations are fine, there is today a distinct message of caution about spending and, perhaps, even a sense of new attitudes and values about the kinds (and amounts) of discretionary spending vs. saving or other activities that are appealing to consumers.

BR: Having said that, are there any appealing opportunities within the gaming sector?

MM: We believe that the Macau and Singapore markets will be the most significant positive drivers in the gaming industry for the foreseeable future. Strong growth rates in Macau last year were driven by a combination of the rebounding Chinese economy and a supply constrained market. In Macau, the government limits the total number of licenses, or concessions, that are required to open new gaming properties as well as the total number of gaming tables that are allowed in the market, which significantly limits supply in the face of growing demand. Singapore is also capacity constrained, as it is a duopoly market.

BR: Michael, thank you for your perspective on hotel and gaming investing. Do you have any final thoughts?

MM: Yes. It’s important to note that change is constant, so while supply constrained markets are appealing in both the gaming and hotel industries, we are constantly revisiting our assumptions so that we can quickly rebalance our portfolios as needed to pursue the most appealing opportunities that may surface for our clients.

Many gaming destinations, including Las Vegas and Atlantic City, are suffering from oversupply and decreased demand.

The views expressed are the views of Fred Alger Management, Inc. as of July 31, 2010. Alger has used sources of information which it believes to be reliable; however, this publication is not intended to be and does not constitute investment advice. 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 should not be considered a recommendation to purchase or sell securities. Individual securities or industries/sectors mentioned, if any, should be considered in the context of an overall portfolio and therefore reference to them should not be construed as a recommendation or offer to purchase or sell securities. References to or implications regarding the performance of an individual security or group of securities are not intended as an indication of the characteristics or performance of any specific sector, industry, security, group of securities or a portfolio and are for illustrative purposes only. | The group of companies that we call USA, Inc. does not represent an actual portfolio and the specific securities within the group may or may not be held in more than one portfolio or portfolio style advised by Fred Alger Management, Inc. Inclusion of a security in this group is not a recommendation to purchase such security or an indication regarding such security's prior performance. Further, the securities in the group are held in one or more portfolio advised by Fred Alger Management, Inc. as of the date hereof and are subject to change at any time. | The VIX (CBOE Volatility Index) is a popular measure of the implied volatility of S&P 500 index options. The S&P 500 Index is an unmanaged index generally representative of the U.S. stock market without regard to company size. Investors cannot invest directly in any index. Index performance does not reflect deduction for fees, expenses, or taxes. Investing in companies of all capitalizations involves the risk that smaller, newer issuers in which Alger invests may have limited product lines or financial resources or lack of management depth. | **Past performance is no guarantee of future results.** | Investing in the stock market involves gains and losses and may not be suitable for all investors. Growth stocks tend to be more volatile than other stocks, as the prices of growth stocks tend to be higher in relation to their companies' earnings and may be more sensitive to market, political and economic development. | Recent performance has been impacted by an unusually strong period in the U.S. equity market and there is no guarantee that such conditions will be repeated.

Before investing, carefully consider a fund's investment objective, risks, charges and expenses. For a prospectus containing this and other information about a fund, call us at (800) 992-3863 or visit us at www.alger.com. Read it carefully before investing. NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Fred Alger & Company, Incorporated, Distributor. Member NYSE Euronext, SIPC.