ALGER

OUTLOOK

DEBORAH MEDENICA ON THE EMERGING MARKETS STRATEGY

Wrapping up 2015, we saw slowing economic growth and higher volatility across capital markets. However, emerging markets is still growing at one-and-a-half to two times that of the developed world. So, I think we're looking at a very constructive 2016.

Alger Emerging Markets Strategy Portfolio Manager Deborah A. Vélez Medenica gives an up to date outlook on the strategy.

Kevin Collins: Hello, my name is Kevin Collins and I am Senior Vice President, Client Portfolio Manager, with Fred Alger Management. I am pleased to introduce the speaker for today's podast, Deborah Vélez Medenica, Senior Vice President and Portfolio Manager for the Alger Emerging Markets strategy. Deborah and her team joined Alger in 2010 and celebrated their five year anniversary as of year-end. The team has worked together for over a decade and collectively, they average 20 years of investment experience in the emerging markets, investing through the ups and downs of multiple market cycles. While mindful of the recent volatility in the Chinese markets, we do not believe that it will materially affect the long-term prospects for the asset class as a whole.

Deborah A. Vélez Medenica: As we wrap up the calendar year 2015, I think what we've seen is a lot of slowing economic growth and higher volatility across general capital markets. Much of that has been from investors contemplating the effect of a normalized monetary cycle here in the United States. Currently, we're looking at flat to slightly down EPS in aggregate for the asset class this year; that's coming up from a position where we started the year around ten percent earnings growth in U.S. dollars for emerging markets. So there's been a distinct downward bias mostly due to currency impact from the strong U.S. dollar. I think there are a number of things one should keep in mind that I think set the asset class up in a very good position. We should be seeing an acceleration of GDP growth in general across the markets. We should be troughing this year, and even in that context, emerging markets is still growing one-and-a-half to two times that of the developed world.

The large currency depreciations we've seen in 2015 that have impacted translation, those should be largely behind us.
And lastly, I would say that we've had three consecutive years now of subpar emerging market total returns. We haven't seen that phenomena since the 2002 period. That type of return is really not reflective of what we're seeing companies do in their markets. In particular, I would say the media has been quite focused on a couple of markets, so I would like to highlight those.
China has been chugging along at around a seven percent growth rate, and that economy will continue to see a deceleration of its overall GDP growth rate.

We continue to think about China as a market where one wants to stay away from things like steel and building materials where there is lots of overcapacity, and you want to be focused on the things that the Chinese need or want, and that has to do with issues related to convenience, with technology. The proliferation of inexpensive smartphones have opened a lot of doors across various cities, urban, rural, in China, and presented a lot of opportunities. You want to think about things related to the Chinese government's push on the One Belt One Road policy which has to do with recreating old trade routes and you want to think about things related to mitigating environmental degradation.

In the case of India, which is the other big Asian country in the BRIC, India has cyclically bottomed already. It is in a monetary easing cycle, cutting interest rates, and it has a new Prime Minister who has been in power now for not quite two years. And there, I would say, there are a number of structural items on the agenda that have to do with taxation, IDs, and public sector banks. And we would anticipate, as we move into India's next fiscal year, that some of those structural items will get through the legislature and begin to be executed upon. That would be quite constructive for that economy. In the third quarter of this year on stated statistics, India's GDP growth actually exceeded that of China.

If I move next to Russia, which presented a very challenging panorama for investors in 2014, in 2015, it happens to be one of the few emerging markets that's actually registering a positive absolute return.

Russia, of course, is an economy that's very dependent on energy prices, and having energy prices stay at a somewhat depressed level for a period of time is probably going to provide the impetus for that government to begin thinking about some reforms to take away the economic reliance on the energy sector. Also, the Russian economy should cyclically be bottoming.

The Central Bank has begun reducing the rates that they had to hike after the incidents we saw around the Ukrainian issue. And certainly, with issues in the Middle East at the moment, principally around Syria, it is increasingly likely that we will see Russia and other governments begin to work more closely. That, along with implementation of the Minsk Agreement, could result in some alleviation of the sanctions that were applied in 2014.

Russia, of course, remains the largest consumer market in Europe, and when you think about places in the world where there are lots of engineers and individuals involved in technology, usually Russia comes to mind. And that's where we continue to hold names in our portfolio.

If I move to Brazil, that is perhaps the one country in the emerging markets complex where we are not as constructive. Brazil has been through a really torrid couple of years, and we recently saw a second downgrade by one of the global rating agencies to junk status. So Brazil has a couple of issues.   Currently, there is an impeachment process underway for the President of that country, Dilma Rousseff, and they are having some really severe economic problems.

So Brazil has technically entered a recession. And from our point of view, it is unlikely that we will see them exit that recession until sometime later in 2016. So growth continues to weaken; fiscal policy, we would suggest, is still very weak. And because of the issues around politics there is not a lot of investment or decision-making going on.

Those, of course, are not the only markets we invest in, nor are they any more the four largest in the MSCI Index. But I think they are representative of something that we like to talk about in emerging markets, which is that we have a very heterogeneous group of countries that are all doing different things at different points in time.

That said, there are a couple of underlying themes that we have mentioned in the past that are still going to be very valid as we move into 2016. One is thinking about rising per capita incomes.

When somebody's income goes up they begin to think about things related to the formation of a household, maybe getting a mortgage, maybe looking for a wife, thinking of children, maybe buying furniture or appliances. So when you look at our portfolio, we continue to hold a number of names that are reflective of that thinking

The second item I would mention is infrastructure. There is still a very large need across a number of countries to build out infrastructure

You will see a number of names in our portfolio that are reflective of that continued need for infrastructure.

And then, the last thing I would leave you with in terms of the types of stocks we have in our portfolio, is the idea that technology is enabling the emerging world. There are a lot of aspects of technology that I could talk about, but I think one of the most prevalent and one of the most interesting is the proliferation of inexpensive smartphones. That is enabling people in smaller cities and areas that are further away from the big metros to do and transact in a number of ways that we haven't seen before.

So we have a number of names in the portfolio that we think are going to benefit from the access that the cheap smartphone is providing.

I would just say one last item, which is on a valuation perspective. When we look at emerging markets relative to the developed markets, the discount is now back over 30%, so emerging markets is trading 30% cheaper to developed markets despite a very similar outlook for earnings growth.

So I think emerging markets, given all that I have said about the asset class, I think we're looking at a fairly constructive 2016.