A Closer Look at the Alger Concentrated Equity Strategy



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RUDY MAJID: Hello, I'm Rudy Majid. And you're listening to The Alger Podcast, Investing in Growth and Change.

Earlier last year, Alger launched the Alger Concentrated Equity Strategy (ticker CNEQ) – as a way of bringing investors an additional opportunity to invest in the kind of sweeping innovative changes that we now see happening on a daily basis. Concentrated Equity is a focused portfolio of 30 or fewer stocks representing Alger's strongest conviction investment ideas. The portfolio is a nimble and sector agnostic strategy run by long-time portfolio manager, Dr. Ankur Crawford. And here to speak with me today about Concentrated Equity is Ankur Crawford. Ankur, thank you so much for joining me today.

ANKUR CRAWFORD: Thank you.

RUDY: Ankur, just to get started, how does the Concentrated Equity strategy work?

ANKUR: The concentrated equity product, it's a strategy that is steeped in large cap, that is anywhere from 20 to 30 names and I've always thought about if we could own only businesses that are killing it in this world. They have the advantages of scale. Can we find 20 to 30 of them that we could fill a portfolio with and what would the results be? I think this strategy is really an effort to put together 20 to 30 of those names. I would say 50 percent of the names probably have the characteristics of being natural monopolies, or natural oligopolies that have incredible pricing power. Also, with a more concentrated benchmark, it behooves us to also be more concentrated, which is really the genesis of this product.

And we always try to invest in the highest conviction ideas. And also have the ability and the agility to move in and out of maybe some names that are perhaps not as well covered by the Street, or putting some undiscovered potential into the portfolio as well. But again, we are looking for not only high conviction, but also good risk reward of companies that are growing, innovating, are at the leading edge of the mega themes. Like right now, that happens to be artificial intelligence.

RUDY: You mentioned that the strategy is primarily large cap. Is it pure large cap? Or do you have the flexibility to move around?

ANKUR: I would say it's steeped in large cap but has the ability to go down in market cap when we find something that's incredibly special. So, we hold that flexibility because we're aware of the fact that especially now, there's some very interesting and unique companies that are going to come to the fore, that we are going to want for our clients. So, that ability to toggle down in market cap is an important aspect of investing in some of these most interesting companies.

RUDY: Ankur, I know you have an intense focus on the rapidly accelerating pace of innovation. How does that play into this portfolio?

ANKUR: I think we're at a very unique time in our history as both humans and as investors, in part because despite all the change that we've seen in our lifetimes, especially over the last 25 years in the adoption of different technologies, the pace that we are going to see from here over the next five to ten years, I think is going to be many fold what we've already experienced.

So, I like to say, when software writes software, innovation becomes exponential. And we are at that cusp of software being able to write software. And I think we've never lived through exponential innovation as a society. So, what happens when you have exponential innovation where each of us can actually innovate and create? We can create apps, we can create businesses, and all we need is creativity. So, in a world like that, the innovation curve is really steep. I think it's an exciting time for active managers because you really have to understand the nuances of the businesses that you're owning.

Not all businesses are created equal. Not all software businesses will be able to cross this chasm. Not all industrial businesses will be able to cross this chasm. And having a great understanding of how to cross the chasm and how to bridge to where you need to go and how each company is going to do it is going to be a structural imperative as an investor. So, I think that it is a very exciting time because there are going to be an incredible amount of new companies that are formed that are currently private that will come to market.

There are going to be new companies that disrupt the old companies. And it is highly likely that some of the disruptors of the world that we grew up with are going to get disrupted by a new cohort of companies that will be driven by innovation.

RUDY: Ankur, you've spoken a bit about portfolio construction. Clearly, Concentrated Equity, as its title implies is a highly concentrated portfolio. What's your process of getting an in-depth understanding of these companies, and having high conviction?

ANKUR: Oh, gosh. This is the part of the job that's the most fun, getting to know the companies, because there's so much to uncover, it's almost like getting to know a person. And all of the layers that come to life. If you look through our process, it's getting to know the management team, understanding the products, understanding the supply chain and how these products actually impact the world. What are the benefits of their products relative to their competitors? Understanding the competitive dynamic, are the moats building or are they crumbling?

I would say probably 50 percent of our time is spent on really understanding these businesses and having a deep understanding such that sometimes we can add value to the company itself by giving our perspective.

I think running any portfolio, you have to be disciplined. But beyond disciplined, I think you have to be astute enough to understand when the opportunity set changes. Because again, where there is great change, there is oftentimes, the greatest opportunity.

So, we're constantly looking at risk reward. In this market, interestingly enough, that risk reward is also constantly changing because the competitive landscapes are changing.

RUDY: Ankur, what do you think differentiates Concentrated Equity from other innovation-focused, growth equity products?

ANKUR: What I do believe in fundamentally is that the Alger philosophy is one that has been tested through not only time but people, many different kinds of people, many different kinds of economies. And I think that's differentiated.

If you look at some of the other platforms, the philosophy is not unique to the platform. The philosophy is unique to the team or the portfolio manager. I would say that the common thread throughout Alger and in this strategy as well, is that this philosophy of looking for change is strongly expressed.

We have an entire team that filters the market with that similar philosophy, so there's a lot of brain power behind the decisions that are being made. So, I think there is again, a common philosophy of growth and change. And we're in the midst of incredible change.

RUDY: Any final thoughts on your experience running this portfolio?

ANKUR: I think the most rewarding part, is that you're always learning. And I don't think there is a day or a week that goes by where I have not learned something new, whether it's a new technology, a new company, I haven't met someone new that is usually wildly interesting. I think the most gratifying part about this is when you find an opportunity that no one else recognizes and you get to put it into the portfolios for our clients.

RUDY: Ankur, thanks so much for your time this afternoon.

ANKUR: Thank you.

RUDY: And thank you for listening. For more information on Alger Concentrated Equity (CNEQ) and for more of our latest insights, please visit www.alger.com.

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