

The Metaverse Revolution

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We think that the metaverse is going to profoundly change the way people work, play, and live. And companies that are levered to that kind of growth are Alger-type businesses. The age of the metaverse is upon us. But what is it and how will it impact the way we invest? Portfolio Manager Ankur Crawford takes a deep dive into this brave new world.

ALEX BERNSTEIN: Hello, I'm Alex Bernstein and you're listening to The Alger Podcast: Investing in Growth and Change. The subject of a virtual reality "metaverse" has been grabbing headlines recently – and some investors may be wondering, well, what exactly is the metaverse? How soon is something like this going to happen? And how might it impact me and the companies I'm interested in? To take a deep dive into these questions, I'm speaking with Alger Portfolio Manager Ankur Crawford, who thinks this could be another technological revolution. Ankur, thanks so much for joining me this afternoon.

ANKUR CRAWFORD: Thanks for having me on, Alex. It's always fun to do these.

ALEX: So, Ankur, just to start at the beginning, what exactly is the metaverse?

ANKUR: It's something that we have been looking at for the last several months, in part, because we're always looking for understanding where our world is going, and not where it's going over the next quarter or two, but where it's going over the next decade. And it occurred to me that as we're looking out over the next decade, we think this idea of having a metaverse or an alternate web, an alternate internet, is not a possibility, but a high probability. So, we've been investing a lot of time in understanding what that means. What does it mean for the current generation of disrupters? What does it mean for the current generation of companies? And really, which companies have the ability to cross that chasm into this new world?

ALEX: Ankur, I know you're always thinking about innovation and rapid digital transformation, but what was it that first brought the metaverse to your attention? And I know you've been thinking about it for a while.

ANKUR: Alex, I mean it's kind of funny in part because who was the investor who said try and find investment ideas from your own life? And so, this idea actually came to me in part because I was getting really irritated with my kids playing Roblox. And they were playing this video game and they would come home from school, actually it started happening during COVID, they would spend hours inside of this very strange looking world, but all of their friends were there. And they cried, they laughed, they hung out, they played games, they traded pets, they did everything that you might think you would do outside, as if you're playing out in your backyard with all of your friends. However, it was all on a screen. And I realized they socialize in this metaverse of theirs. It's a game for them. And it would be no different than us as teenagers hopping on the phone and conference calling with two of our friends.

ALEX: And you believe that kids who are learning and socializing in this environment today are only going to get older and expect more of this in the years to come?

ANKUR: Absolutely. And the interesting thing is that the technology actually will age up. So right now, we're talking about eight to 13, eight to 15-year olds that play these somewhat strange looking games, but over time, they become more refined. Over time, we get to build our own beautiful avatars and dress them and meet people inside of these platforms. And we think, not only will we be playing games inside of these platforms, but they are tools by which we can learn or train. We'll be entertained. There are already concerts that are happening inside of the metaverse. We think we will be advertised to inside of the metaverse. We will be buying virtual goods. In fact, we think the holy grail here is going to be us being able to buy physical goods in a virtual world.

ANKUR (continued): We will be perhaps even going to conferences. We may be sitting inside of a metaverse and having a meeting.

So really, when we envision the metaverse and when I think about where we're going, it's an alternative place to meet in a less flat version than we do today.

ALEX: You mentioned to me a retail event that recently happened in this current metaverse that caught your attention. Can you tell me about that?

ANKUR: So, there are a few different things that surprised me as I started looking into this metaverse. And the first was that there was a high-end luxury goods company that had a room in the metaverse.

ALEX: In Roblox?

ANKUR: Yes. They had built a platform or a room inside the metaverse where you could go and you could buy virtual goods, branded virtual goods. And it was quite exclusive where the virtual goods were actually quite expensive. There was a purse, a virtual purse that was sold for \$1,000. And then later resold for \$4,000. So that also was a bit befuddling, i.e., what child, teenager is spending \$1,000 for their avatar to wear, or to own, a branded purse. I thought that was interesting. But the fact that someone else bought it for four was also interesting.

If you look at some of the goods that were sold inside of that showroom, several of them are exclusive and are being resold on the secondary market. So, there's also an exclusivity that continues a branding that is occurring, which made us think about how big is the advertising opportunity and the brand dollars that can be attracted into a platform like this.

There's another company, it was a shoe company that also had a platform or a room or a showroom and which attracted I think 40 million visitors. And that's global. It's really a global advertising campaign because there are no borders in this metaverse. So, it really makes you think about how businesses are going to have to morph. How are they going to reach their customer base?

ALEX: Ankur, there's been a lot of conjecture about how long it will take to have a workable metaverse. We've heard the phrase "ten years" a lot. How far away do you think we are?

ANKUR: I think, just like this technological revolution that we've talked about before, the network had to be in place before we could layer on the apps. Once we had

the apps, we had to make sure that we could actually store data and we needed all of the hardware and the software and the applications and the users to then be there in order to take advantage of the ecosystem.

The same way we think the metaverse needs the hardware, we need to build out the appropriate cloud that will host this or take advantage of the cloud. We need to come up with pricing models that allow for the ecosystem to thrive. And we need to make sure that the consumer, the enterprise is ready. And maybe even something like the payments network that may be a blockchain type payments network that is inside of these new economies. And we have to make sure that all of these are coming together in a way that is not only usable, but creates an experience that you actually want to be participating inside.

So, when you asked how long, I think definitively over, I would say three to five years, we will all have had a metaverse type experience. I would say within seven years, we will regularly be doing something inside of the metaverse, and within ten years, I would expect to see e-commerce shopping, a more robust interaction with the metaverse. And the way I think of it and the way I like to explain it to people is, Imagine instead of Whole Foods, when you go and you order, right now, it's a 2-D screen and you say I want some vegetables and you pick your peppers and your carrots and so on and so forth. But the variety that you really have on your screen is not the full variety.

So, if you're walking through a virtual Whole Foods and you see all of the different brands on the shelf and all you have to do is point and click, and it appears at your door in four hours. That experience is much different than the one that we have today. And technically, you can go there with your kids, or you might run into a neighbor while you're at the Whole Foods, very similar to what might happen in a grocery store.

ALEX: One thing that I think may be confusing to investors is – are we talking about one primary metaverse that's hosted and maintained by one particular company? Or will there be potentially multiple metaverses vying for consumers' attention?

ANKUR: So, it's interesting, because I think that there's a philosophical differential in the marketplace right now. We think there are some companies that want to have one metaverse that they control and there are others that want to have a more open ecosystem. And in that open ecosystem, there are many metaverses and one can travel across the metaverses.

ANKUR (continued): Now, there's a large company that seems to want to effectively own the operating system upon which all the metaverses will sit, which is a very powerful place to be. And will it play out that way? We'll have to see. I think that is probably the easiest onboarding for everyone to get onto the metaverse. But over time, I do believe there will actually be many different metaverses. And the interaction between the metaverses is going to have to be seamless, because remember it's almost as if I walk from my office to my home. You want to have that same feeling while you're in the metaverses and not have to log in and log out. And so, I think this is a philosophical debate that will happen over the next decade about what is the right form factor for these metaverses but given that there should be just more than one owner of the platform or the operating system, I do believe there will be many of them.

ALEX: I also assume that there are going to be a number of regulatory concerns that need to get ironed out before this becomes practical?

ANKUR: Oh, absolutely, Alex. I think safety, security. I mean think about your children running around the metaverse and I actually worry about this myself even today. And so, security and safety, are going to be a number one priority, I think even over experience. So, we think there will be a lot of effort placed on making sure that this experience is a safe one. And it's essential that we do that.

ALEX: Ankur, as a portfolio manager, how do you and your team bring this theme of the metaverse into your day-to-day process?

ANKUR: So, if we think about where our world is going over the next ten years, we then as investors have to figure out how do we get there. And that's the most interesting part of our job because we have to strategically think through, where does a company have to position itself today to make itself capable of being part of that next growth phase? And then we watch for if they have the capabilities, if they're actually doing anything to progress in that direction. And if they have the right mentality and strategy.

So, we are looking for businesses that are going to be the platforms on which the metaverse is created, right. So that would be an obvious place for us to be looking for investing in the metaverse.

Secondly, we'd be looking at companies that are the infrastructure for the metaverse, whether it is the

hardware, whether it is software, whether it is the compute for the metaverse, because it will be compute intensive. So what businesses are poised to benefit from this explosion in compute demand? And do they have the ability to actually serve that function today, or are we looking for entrants in the market?

So, as we think about the building blocks for a new technology, we have to understand how to get there and what companies can enable those building blocks and enable that whole vision that we have.

ALEX: Ankur, at the end of the day, why do you think the metaverse is a good investing theme for Alger?

ANKUR: Oh, my gosh. This is actually exactly what we look for at Alger. We look for markets that are small today that are going to really change our worlds. Not necessarily today, but as we move forward.

We think that the metaverse is going to profoundly change the way people are working, the way they play, the way we learn, the way we experience. And with that great change comes great change in ecosystems. So, we think it enables an entirely new genre of growth in the economy. So, there's so many different companies that we think are going to be able to participate as this burgeons into a new growth trajectory. And companies that are levered to that kind of growth are typical Alger-type businesses. We look for change, we love change, and we love revolutions, and we think that this is revolutionary.

ALEX: Ankur, thank so much for talking with me today.

ANKUR: Thanks Alex, it was great talking to you.

ALEX: And thank you for listening. To hear more of Ankur's thoughts on the technological revolution and for more of our latest insights, please visit www.alger.com.

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