

Collecting Dominant Mid Caps

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ALEX BERNSTEIN: Hello, I'm Alex Bernstein and you're listening to The Alger Podcast: Investing in Growth and Change. We've introduced several new voices from Alger on the podcast this year, and today is a particularly exciting edition, as I'm speaking with Brandon Geisler, Alger's new Portfolio Manager for our Mid Cap Growth strategy. Brandon comes to Alger with significant experience managing a number of diverse strategies. And he also has the distinction of opening up our new Denver, Colorado office. Brandon, thanks so much for joining me on the podcast this afternoon.

BRANDON GEISLER: Thanks, Alex, and I'm excited to be with you here today.

ALEX: Brandon, we've met a couple times now, and I know that you have a long history of both investment analysis and portfolio management – and not just in mid cap, but in large cap and global portfolios as well. What made you decide to focus solely on the Mid Cap Growth portfolio at Alger?

BRANDON: Yes, well, I think what's really interesting to me about this space is these are companies that have really graduated from the small cap universe, and they now have, in many cases, a tried-and-true management team. They have business processes. They probably graduated from maybe one product or service to multiple, and they've been able to duplicate that. So, it's interesting because if you can capture those really high-quality, small cap companies as they kind of grow into this mid cap space, there's this really sweet spot before they kind of grab the attention of a large cap managers. They can be companies that give you returns that are more like small cap, but because they've graduated from some of the issues that sometimes emerge in small cap investing, they give you some of the risk characteristics that are a little more like a large cap.

So, it's this middle group of ideas where they tend to be under-covered as well, and so if you're willing to spend the time and do the analysis, you can find good opportunities. I think it's a very interesting part of the market, often overlooked, but that, in many respects, creates the opportunity.

ALEX: Brandon, tell me a bit about how you particularly construct a portfolio. What are you looking for – both in a company – and overall construction of the portfolio?

BRANDON: So, I think obviously over time as an investor, I think everyone kind of develops their own kind of style. I think from my perspective, I'm really looking for the bulk of this portfolio to be companies that have characteristics where they're consistently driving revenue and margin growth. They tend to have the margin profile that places them in the top quartile of their industry and/or the return on invested capital profile that places them in the top quartile in the industry, because to me that established that consistency pattern that actually highlights process. We pride ourselves in process at Alger on developing a thesis and meeting companies and producing a model, and we hope through hard work and consistency that drives outsized returns.

It's very similar at a business. So, I'm looking for businesses that have that same consistency in process, and often we can see that through consistency of revenue through margin and similarly through things like free cash flow and return on invested capital. So, the bulk of my portfolio is businesses that have exhibited that, and they are number one or two often in the industries they're participating in. So, dominance to me is important. Scale is important to me because I think it drives competitive advantage, particularly in environments like we are in today where price and inflation and dealing with supply chain and things like that are on everybody's mind, and so larger businesses have a better ability to compete in an environment like that compared to their peers. So, the bulk of the portfolio is composed of ideas like that.

I do like to have some broad representation across the market as well. I think one of the things that I've tried to do over the years is also have a framework for controlling risk. So, we're obviously always taking company risk. We're trying to mitigate that and understand the fundamentals of a particular company because we do like to run active share in our portfolios across the board. We're certainly not benchmark hugging in any case, but we're cognizant of where they are because the market does trade sometimes in different patterns, and I want to be aware of those patterns.

ALEX: So, for the bulk of your portfolio, you'll be looking for mid cap companies that are potentially dominating their industries. What about the rest of the portfolio? What kind of companies are you looking for there?

BRANDON: I have these two ends of kind of place markers where they can be really aggressive growth companies, that have a truly differentiated business proposition. The risk on those can be higher because at times they can be single-product companies, for example, but through analysis and through working with the team, if we discount those risks appropriately and they still present an opportunity, those can present themselves as positions in the fund from time to time.

Similarly, I have this lifecycle change bucket, and by lifecycle change I mean a more established business that maybe has fallen on hard times. Maybe they have a geography or a change in management or a business unit that is not performing well, and there's a change agent. So, is that change agent a new manager? Is it a divestiture? Is it a new product? Maybe they've been spending for R&D for years, and now suddenly here comes the new product. Finding those opportunities on stocks that may be discounted in one scenario but now can change is another part of the portfolio as well and those are more opportunistic.

Basically, all of those buckets fit into positive dynamic change which is something that we talk about at Alger. I think over time our portfolio will look different than others because we're going to put our own stamp on it, and some of the characteristics of the businesses that we hope to populate the portfolio with will have kind of unique attributes that I talked about.

ALEX: Thanks, Brandon. And what themes are you currently focused on?

BRANDON: Obviously, we're in a difficult market, but I think if we look forward three, four, five years, things in energy consumption and mobility are going to change. I think electric cars are going to happen by 2030 in California. I think you're not going to be able to buy a gasoline-powered, a combustion-powered car. It's happening in Europe. It's happening in Asia. I think it is something that is going to materialize. So that's, for example, one very prevalent theme that we're trying to find different ways to express in the portfolio.

One way is to obviously look at this through the lens of things like the semiconductor industry, and I would say related companies around that, because we're going to have more copper and more silicon content. We're going to need to connect electric devices or produce the batteries. So, I think there's going to be a major content story for certain companies participating in that market, and we're building exposure to those, particularly in down markets like we have today.

Then you go one step back in the supply chain, how this is all going to get made. Well, then you have companies that are in the industry that are supporting the development of semiconductor chips around the world, and obviously here in the U.S. we have a big driver of some of that domestic production as well. So, that is one theme I would say broadly in automobiles, electrification, e-mobility.

Another one really for me is understanding what's going on in biotech. So, I think there are some really incredible things that are happening in healthcare. I'm looking for companies that are really differentiating the treatment paradigm. So, for

example, within diabetes there are companies now that are producing new delivery devices that are really changing their ability to penetrate the market, improve outcomes, and so there are names in that area. And then similarly in biotech there's a lot of different companies that are changing the paradigm.

Then other areas, I do like spaces like travel, but travel doesn't have to be a hotel or a cruise line. It can also be the suppliers to the airline industry, and so there are some great companies there that have dominant market positions. That goes back to where I started about businesses that have shown that consistency of revenue, consistency of margin. The tail on that is exceptionally long, and so you can really think about the cash flows that emerge from that. So that's another area.

ALEX: Brandon, as I mentioned in the beginning, you've officially opened our new Denver office. Can you talk about the new office?

BRANDON: Yes. So, we got to move our Mountain West office – I don't know how you want to call it – here in Denver. So, we just opened up in downtown Cherry Creek which is fabulous. This is really the financial hub I would say of Denver. What's been great is when management teams or investment community counterparts come through Denver to visit a company, we're right here.

I think it allows us to kind of have the best of both worlds. We can kind of capture the energy and the drive of New York and also the resources and the analyst team in New York, but it also allows us to come back to Denver and take a step back. We will be developing a team out here in Denver as well over time.

ALEX: Brandon, before I let you go, I wanted to just touch on the subject of the current market, which has been extremely challenging. Unfortunately, not every portfolio manager has the luxury of launching a new portfolio in an up market. What was it like for you starting a new product in this kind of environment?

BRANDON: Well, I mean it's no doubt that it's tricky, but I also see it from a positive perspective because it's presenting opportunities, and having a team help you find the best opportunities is what excited me. So, I joined over the summer. Roughly, the markets were down 20 percent or so. I don't know how much further they'll go down, but what is evident is, as we kind of look at the market today, you had defensive groups of stocks probably that were holding up. And then you had another group of stocks that were significant underperformers. But in some cases, those could actually be some of the best stocks you want to own over the next three, four, five years. Really from my perspective it's all about putting up good three- to five-year numbers. That's the ultimate goal for me. Consistency is something that I think is really important in investing. If I think about '23, '24, '25, setting up the fund for multiple years of hopefully good performance.

ALEX: Thank you. Brandon, outside of investing, what do you do for fun?

BRANDON: Well, I have a wife and two daughters who keep me busy. We actually live on the west side of town in the foothills, and I can leave my house and be on a mountain biking trail or go hiking, or in the winter we get to ski, but really, it's being outside. I think it's been great for me for getting perspective. You kind of get the best of both worlds, a nice metro market but then you can be 45 minutes west and right in the mountains which is awesome.

ALEX: I've actually spent some time hiking in Denver, and I have to ask, how often have you run into moose?

BRANDON: To moose? Where I live, we see a lot of elk and a lot of deer, the odd bear, and I have not personally seen a mountain lion, but we have caught it on Ring cams in our backyard.

ALEX: In your backyard?

BRANDON: Yes.

ALEX: Oh my gosh.

BRANDON: At night. I've never seen one during the day.

ALEX: Thank goodness! Brandon, thanks so much for joining me on the podcast today!

BRANDON: Thanks, Alex. Great talking to you.

ALEX: And thank you for listening. For more information on the Alger Mid Cap Growth portfolio, and for more of our latest insights, please visit www.alger.com.

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