ALGER

PODCAST TRANSCRIPT

A 60 Year Focus on Fundamental Research



Dan Chung, CFA
Chief Executive Officer, Chief Investment Officer, Portfolio Manager

ALEX BERNSTEIN: Hello, I'm Alex Bernstein and you're listening to the Alger Podcast: Investing in Growth and Change. 2024 marked Alger's 60th anniversary as an investment firm. It also marked 30 years at the firm for Alger's CEO and Chief Investment Officer, Dan Chung. As such, we've been doing a special series of interviews with Dan, talking to him about both his personal history at Alger and some of the foundational ideas of the firm that have stood the test of time since the company's inception. Dan, thanks so much for joining me again this afternoon.

DAN CHUNG: Thanks, Alex.

ALEX: Dan, last time we talked about your early days at Alger. This time I'd like to focus on a couple of the pillars of the firm. That is, the importance of investing in innovation and Alger's deep focus on research. Why do you think hands-on research is so key to Alger's fundamentals?

DAN: Well, I think it's because in our investment philosophy, which is now 60 years old, we identified that essentially disruptive change in an industry in the real world means that understanding what will happen in the future for an industry or for a company cannot be easily predicted based on past results or on the last four quarters of historical financials. So, it requires a mindset and an approach that basically is willing to handle lots of uncertainty and is able to imagine – and it is a creative job – outcomes that are both very good and very bad and not necessarily linear. One of the biggest opportunities for investors like Alger is there's a lot of linear thinking in the world.

What we try to do sometimes is find the companies whose fundamental performance, which will ultimately be reflected in their financials, is going to be nonlinear relative to expectations, and it can go on for years. That capability to discern that because the world is always changing and because the forces of disruption and innovation are actually accelerating, not decelerating, it seems to me the opportunities for that to add value through investing are as great as they ever were.

ALEX: Dan, why is having an analyst training program so crucial at Alger?

DAN: Well, I think because of the nature of the real world, which is where innovation is accelerating, disruption therefore is accelerating, and potentially disruption is larger in scale when it happens as well. In our modern world we're seeing time accelerated and the size of disruption greater, and that's not just on a technological basis. That's on a societal basis. That's on a geopolitical basis. It's happening across many countries, not just the U.S.

So, analysts at Alger are charged with being sector experts, knowing their industry as well as an expert in the industry would, so knowing the companies, the people, the technologies, the consumers, the trends. And when you combine that with the pace of disruption and the scale of disruption that's

happening, I think it's only experienced analysts and experienced portfolio managers who can try to discern what are going to be the winners, in terms of companies. What are going to be the trends that dominate? What are going to be the trends that fail or end?

ALEX: What does it take to be an Alger analyst?

DAN: Well, I like to see people who have a high degree of curiosity. They want to learn new things all the time. In a diligent fashion, in a fashion that the details matter. We don't want them totally detail oriented and missing the forest for the trees, if you will, but learners, people with the ability to go deep and detailed.

We have a very diverse background of analysts and portfolio managers here. I think the leaders here are very good at looking for people who have what I would call determination. Some would say it's grit. It's evidence of some kind of challenge overcome, and sometimes those challenges just may be meeting the high expectations of their parents, but rather than breaking them, it's definitely made them better. You know?

ALEX: How often do analysts surprise you? Can you remember times where an analyst uncovered something that might not have been evident through traditional analysis?

DAN: Let me start with one that I'm least personally capable of investing in, but our healthcare team has deep scientific and industry knowledge, and some of the success they've had in like biotech companies, in figuring out which ones have the scientific platform that will result in good clinical studies has been quite amazing.

They read a lot of scientific journals. They talk to the doctors. They understand most importantly what's important and what's not important in a scientific result that might indicate success commercially or failure commercially because, again, these are very early stage. So many of them still can fail, but they've done a very good job of identifying where the science is interesting, where the approach or process could be attractive or even foundational for a new field.

I would say in tech we have another very deep, long history there, and some of the insights in the semiconductor industry that we've had over many years have been quite amazing. I mean the big picture ones often are things like that the capital intensity of the industry would take a step function up after a long period where it trend lined and then took a step function up. Most of the time most people will trend line something.

But we had insights because of the deep knowledge of the semiconductor industry and the research simply that our analysts did that semiconductor capital intensity would step up across the industry, and that happened years ago. More recently we're focusing a lot of that on AI, obviously leaders like NVIDIA, Microsoft but also what will be the other winners in this. Again, it requires a pretty deep understanding of the barriers to entry as well as what are the openings for people because AI will definitely upset the apple cart in some industries, but it will also probably for some companies allow them to extend their leadership or to catapult them into a new generation of leaders.

ALEX: What do you think is the biggest advantage to being an analyst?

DAN: For someone who likes to learn and be engaged with the real world, there are not many better jobs than being an analyst. And we tie that, the learning and research and engagement with another very important thing which is the ability to see your insights and ideas go into action, i.e., in a portfolio, and if you generate superior returns, it's a tangible, measurable, quantifiable thing. You get to participate in and meet some of the most important people in business, the innovators, the disruptors. You pretty much have a front row seat. As an analyst or a portfolio manager, you have a front row seat at hundreds of companies and their paths.

ALEX: Thanks, Dan. I wanted to switch over and talk somewhat broadly about something you already touched on – Alger's history and philosophy of

investing in innovation. In your experience, what would you say are the three biggest innovative or disruptive trends you've seen over your 30-year career here?

DAN: Well, I mean the Internet itself, although interestingly, if the Internet hadn't come along with mobile data, I'm not sure how disruptive it really would be. So, imagine Internet, but no mobile data. That means like okay, you're shopping on Amazon, but you've got to do it at your desktop. And it's like okay, this is pretty interesting but it's not that different than catalog shopping. It's more efficient, it's a little bit more interesting. Streaming movies, okay, well it's cheaper, better, but the fact is we had cable TV and there was lots of entertainment.

So, my point is Internet is very important, but actually mobile data, the ability to carry it with you and do it everywhere, that was actually almost more the game changer for the Internet, right? That's why we all carry around smart phones now as opposed to just a phone. So, those are some of the big ones coming together. And they really did kind of come together.

I think genomics, sequencing of DNA, the rapidly falling costs there, and then of course, leveraging all that data with advanced science, computing. So, big data. I mean all of that to the purpose of better identifying what's the cause of a disease, what are the potential therapies and cures for it. That's how we're getting the COVID vaccines, MRNA, that's a technology that's borne from understanding the sequencing of genes and how cells produce proteins, i.e. transcription of RNA sequencing.

A lot of the newest therapies that people are targeting for autoimmune, cancer diseases are basically using the body's own autoimmune system to supercharge it, or give it the right inputs to defend itself. But those inputs are all the knowledge of the proteins, the markers, the antigens and all that. That's all basically based on genomics and computing being brought into biology. And some cancers now are basically being cured, or at least remission periods of decades, which is almost like a cure versus say just 30-something years ago. So, healthcare has made a lot of advances driven by, I would say genomics.

ALEX: And what's the third biggest innovation, in your opinion?

DAN: The third biggest, I don't think it's a technology so much. It's just the change in society. It's globalization. If it's a technology, I guess it's the falling cost of travel, because it's kind of shocking to me how much more interconnected we are, how much more people travel, how much better, even in the slightest way through tourism, but nevertheless, better people understand other cultures, other people, other societies. I mean that globalization is real. And it's pretty shockingly dramatic.

I mean I come from a family that, we went to Hawaii once. And we weren't poor, but we weren't wealthy, but we went to Hawaii once, from California I should say, so it's not that far. But it was like there were families I know that went every Christmas. We were not one of them, we could not afford that. We went once.

But today, when you look at the travel statistics either here in the U.S. or globally, you really see an amazing amount of travel of all kinds, both domestic and international and also very different forms. People are traveling not just to hotels but AirBNB and a lot of AirBNB stays are with a host. And then of course, there's adventure travel, whether it's on a bike or sailing or hiking or whatever, it's a food exploration of some country. Experience-based travel of both sort of the outdoorsy kind and the cultural kind.

So, that's really kind of amazing to me. And I think by and large, we actually do understand people from other cultures and other countries I think a lot better than we did when I was a kid. The experience of your typical 20-year-old now, versus me at 20, of travel has really dramatically changed. And so that sense of the world, of globalization is I think is radically different. It was very, very expensive to travel when I was a kid. People don't actually appreciate how much cheaper it is today to do these things.

ALEX: Dan, how challenging do you think it is, to effectively capitalize on innovation or disruption before the Street does?

DAN: That is a very good question. I mean it's always

been very challenging. It would be a little too simple to say oh, it's harder now because news travels faster and you've got computers and all that. But I'm not so sure about that. But it's always difficult to stay ahead of the crowd. The pace of innovation is higher and faster today. For investors the problem is there's a lot of innovation that doesn't last very long and it burns out versus innovation that creates something that lasts for years and years and creates an industry. So, distinguishing between the two is a little tricky.

Probably the biggest issue today in the economy and in the stock markets is the dominance of mega cap companies who are pretty fast moving to capitalize on changes. And so, small cap companies, the small, pure innovator of some new technology or a game or entertainment, their stuff gets copied so quickly. It's hard for them to become large companies and dominant companies for over a period of years because they're so quickly facing competition from larger companies.

ALEX: Dan, last question. Do you think Alger's philosophy of investing in innovation and disruption will still be going strong in 50 to 60 years?

DAN: I absolutely think so. I mean, we're in our 60th year because the philosophy works so well. And it works so well because it's a philosophy of how to look at the real world and how to invest in the opportunities that the real world is bringing. So, dynamic change is going to occur. You can pretend it's not. That's not a very useful survival technique for most species in the real world. Or you can look at it and say okay, where is the dynamic change occurring and how do we take advantage of that as investors.

I think actually the pace of innovation increasing and the globalization of the world is actually making in some sense the opportunities for growth investors like Alger even greater than they have been in the past, because again, the opportunities are not just here in the U.S. They are also definitely in Asia. They're definitely in Europe as well, and most importantly, they're in companies that can be global leaders.

We're faced with a lot of challenges in the world today, climate change, reshoring, geopolitics, artificial intelligence, aging populations. So, there's a lot of revolutions occurring across a lot of industries and the trend generally is to benefit all of us, some more than others. It's true, but I see that as a fruitful field for investing the way Alger has for 60 years.

ALEX: Dan, thank you so much for talking with me this afternoon.

DAN: Thanks, Alex. Great talking with you.

ALEX: And thank you for listening. For more of our latest insights, and for more information on how Alger can help you unlock your growth potential, please visit www.alger.com.

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