"The more successful companies already have their digital transformations underway and that raises the game for everyone." Weatherbie Specialized Growth Portfolio Manager Ed Minn discusses how companies are evolving their strategies to fully incorporate artificial intelligence.

ALEX BERNSTEIN: Hello, I’m Alex Bernstein and you’re listening to The Alger Podcast: Investing in Growth and Change. It’s been about a year since I last checked in with Weatherbie Specialized Growth Portfolio Manager, Ed Minn. At that time, Ed, like so many Alger managers, was focusing on rapid digital transformation and the impact on the companies he follows. Here to give me an update on digital transformation is Ed Minn. Ed, thanks so much for joining me today.

ED MINN: Sure, Alex. Thanks very much for having me.

ALEX: Ed, you mentioned to me that one theme you currently have a particular focus on is AI, or artificial intelligence. Can you tell me why that’s such a focus for you right now?

ED: Artificial Intelligence, or AI, can be thought of as the science of building machines or algorithms with an intelligence comparable to that of a human. In other words, making a computer program perform a task in a human-like way. And related to that is machine learning, or ML, which is a subset of AI, where computers have the ability to learn without being explicitly programmed. So, with broad definitions like that, it’s not surprising to hear that so many companies are pitching themselves as AI companies to customers and investors. But as we do our due diligence, we are finding that many of our prospective investments and current holdings are increasingly incorporating AI into their processes in a substantive way that we believe really elevates their competitive advantage.

One holding in the portfolio that has been doing a great job of incorporating AI is a software company that focuses on voice recognition for the automotive market. Voice recognition is really a hard thing to do. And to do it properly, a company really needs to harness the power of AI. This company collects about five million utterances per day from people using its software in cars. It uses this data to train its voice recognition algorithms to work better over time. You might ask how does it do that? How does it know that it’s getting the right answer and associating the right meanings with distinct sounds? And one of the ways it does that is it collects the associated information like what destination does the driver ultimately reach per the navigation system. Or what song is ultimately selected to play per the infotainment system. So, it uses that information to effectively grade the output of the algorithm, the predictions it makes. And lets the system know if it’s accurate or not. And in cases where it’s not, it can use that information to tweak itself.
ED (continued): And so, there’s this feedback loop where it gets better all the time and it does so without any supervision of humans. So, it’s very scalable. The use of sophisticated algorithms like that in this unsupervised way is defined as deep learning. As you might imagine, it’s difficult to obtain such a large and rich data set, and that’s one of the unique aspect of this company and why it has such a wide, and in fact, widening competitive moat over time.

ALEX: Ed, I think investors are hearing more and more about how AI could be used in automobiles these days. What do you think differentiates this company?

ED: This particular software company that’s focused on the automotive market has been optimizing its algorithms for the unique acoustics of a car. There’s a tremendous amount of noise coming from the outside and from within the car that can create noise for the signal, and so the first layer of this algorithm is something called SSE or Speech Signal Enhancement. And this company is a renowned expert in that area, specifically for cars. And when you get deep into the voice recognition area for cars you also confront the problem of who’s speaking. Is this the driver? Or is it one of several passengers? And that matters if the person is requesting temperature controls for his or her side of the car, for instance.

ALEX: And I would think for bigger vehicles, like trucks, the noise ratio just goes up tremendously?

ED: Yes, absolutely. Voice recognition is a very natural user interface in almost any setting, but it’s especially important in cars where you’re supposed to have your hands on the steering wheel and eyes on the road. So, it’s a significant safety feature, not just a matter of convenience.

ALEX: Ed, outside the automotive industry, are you seeing other companies that are leveraging AI?

ED: Absolutely, Alex. One example of this is a software company that has developed its AI powered tool called Augmented Knowledge. This tool is being used internally by the company but it’s also selling it to customers. What the tool does is help customers optimize their submissions to RFPs, Requests for Proposals. The system has collected large amount of data on RFPs across industries, as well as whether those submissions have won the business or not, as well as any associated qualitative feedback. And the output is advice on how to optimize future proposals for work. So, it’s a powerful tool as you might imagine, especially for large companies who might be submitting over 1000 proposals per quarter. And it gets better over time as it ingests more data to analyze. And it can be optimized for specific industries or even clients that you’re pitching business to based on the work you’ve done for them in the past.

ALEX: Ed, as you know, the subject of rapid digital transformation comes up frequently at Alger. Have we reached a point now where we really expect the better companies to be leveraging AI?

ED: I would agree with that fully. I think that the more successful companies already have their digital transformations underway and one prong of that strategy is to incorporate AI as much as possible, and that raises the game for everyone. And it ultimately is very positive for society. It’s really difficult to do with one key bottleneck being the scarcity of talent out there with the necessary skills. And developing AI algorithms is a very messy and iterative process. And it also requires teamwork from people across many disciplines. Data scientists, people with business understanding, experts on user interface design. So, we think it’s quite a challenge but well worth the effort, for the ones that are actually turning it into reality.

ALEX: Ed, another topic that’s been on the minds of investors has been companies’ increasing awareness of ESG or environmental, social and governance standards. I wanted to ask, are you and the Weatherbie team also taking ESG considerations into your process?

ED: ESG is certainly becoming a greater consideration for us. We’re learning more and more about how our holdings score on ESG, and some of the laggards, we’re identifying why they lag on ESG, and beginning to initiate conversations with those managements on how they can improve in those areas. In doing so we hope to be a force for positive change. I think of one portfolio holding that’s an IT services company, they have a whole initiative called “Be Kind”. And the management sincerely is committed to these goals. And as a result, I feel like the company has created an excellent culture which is important for attracting and retaining top notch talent.
ED (continued): And when you think about this, what this company actually does, IT services, they employ thousands of people who write custom software for clients, maintaining an excellent culture in attracting and retaining employees is absolutely essential to what they do in being a successful company. So, without explicitly targeting ESG for this company, it happens to be a portfolio holding that we’ve had for a number of years, because in many cases ESG is good for business.

ALEX: Ed, again, it’s been almost a year since we did our last interview, and so much has changed since then. I wanted to ask how your research process is going, knowing that you’ve all been working remotely for a while now.

ED: Right, Alex. The team is still in full work from home office mode. And we’re in the fortunate group of knowledge workers out there who can continue to do their jobs pretty seamlessly remotely. I think that hopefully this pandemic has taught us that Zoom can provide effective access to management, and hopefully conferences and management team marketing in the future will have an online option so that management can reach more people and that will be just more efficient for management and investors like ourselves to stay close to our companies.

ALEX: Ed, thanks so much for talking with me this afternoon.

ED: Thanks so much Alex, great talking with you.

ALEX: And thank you for listening. For more information on Weatherbie Specialized Growth, and for more of our latest insights, please visit www.alger.com.
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