Exploiting Market Inefficiencies Outside the U.S.

Featuring

Redwood INVESTMENTS



MICHAEL J. MUFSON, CFA
Co-Founder, Chief Investment Officer, Portfolio Manager



DONALD W. SMITH, CFA
Senior Vice President, Portfolio Manager, Senior Analyst



EZRA SAMET, CFA
Senior Vice President, Portfolio Manager, Senior Analyst



ALEXI MAKKAS
Senior Vice President, Portfolio Manager, Senior Analyst



YUDA GOODMAN
Senior Vice President, Portfolio Risk and Quantitative Analysis

ALEX BERNSTEIN: Hello, I'm Alex Bernstein and you're listening to The Alger Podcast: Investing in Growth and Change. Today, we're presenting part two of our conversation with the Alger Redwood investment team. Redwood joined Alger last year and the team now manages our international strategies, including Global Equity, International Opportunities, International Small Cap, and Emerging Markets. Based in Boston, the team brings a research-driven, high-conviction approach to identifying growth opportunities outside the U.S. In our last podcast, we discussed international markets and how macroeconomics across the globe may be changing. Today, we're giving special focus to investment opportunities in Europe, Japan, and China. Once again, I'd like to welcome the entire Redwood team: Portfolio Managers Mike Mufson, Ezra Samet, Donald Smith, Alexi Makkas, and Risk and Analysis expert, Yuda Goodman. Thank you all so much for joining me this afternoon.

EZRA SAMET: Thanks, Alex.

ALEX: I'd like to start off by talking a bit about Japan. Ezra, tell me why you think Japan is such an attractive investment opportunity right now.

EZRA: So, we're really excited and optimistic about Japanese equity markets. And I think it's a story of transformation along a couple of different axes. So, the first is economic, where Japan has just existed in a prolonged, multi-decade period of deflation and very slow growth. And so, among the things that have been absent are real wage growth. So, we believe real wage growth finally has come back to Japan. There was a brief bout about a decade ago, but it faded quickly and we're now in the longest real wage growth cycle in Japan in 25 to 30 years. And that has some really positive implications for demand for consumption for growth, for the ability to invest capital. So, that's one major change.

The second is that Japan has, after 15 years, begun to normalize its interest rate policy. So, we've now had a return to positive interest rates. That allows banks to lend and feed the economy and generate a return. And so again, we believe it makes a group of interest rate sensitive businesses in Japan investable but also helps to just create normalized growth in the economy.

The second category of drivers is really along dramatically improving corporate governance and corporate balance sheets. So, the Tokyo stock exchange as well as the central government have made a push over the last couple of years to meaningfully enhance the way that businesses communicate with shareholders and stakeholders and deploy capital with the goal of making Japan a much more dynamic and globally competitive market. And so, some of the results of that that we're seeing are more transparency and greater communication between businesses and their investors.

You combine it with the very high cash balances on Japanese balance sheets, rising returns on invested capital, rising valuation multiples because higher quality businesses tend to capture higher multiples. So, we believe we're seeing a number of factors come together that are resulting in an improving macro, improving corporate governance and finally potentially reversing some of that significant valuation discount that we've seen for decades.

ALEX: Are there any particular names that stand out for you? Mike?

MIKE MUFSON: So, there's one company we own, Toyo Suisan, which is the largest ramen manufacturer in Japan. They're second in the United States. They're number one in Mexico. The company has about 30 percent of its market cap in cash on the balance sheet and the stock trades at its lowest valuation in almost a decade. So, we think that has a potential to unlock value for shareholders.

ALEX: And everybody loves ramen.

EZRA: Everybody loves ramen.

MIKE: Ramen is the least expensive food that there is for lunchtime.

EZRA: Another example maybe is Hitachi, where improving corporate governance across a variety of metrics, including selling some of the underperforming businesses within the group, diversifying the board and bringing on more external non-executive board members. We believe all of these things have really driven an acceleration in the top line growth and the profitability of the business.

ALEX: I want to shift over to Europe for a bit. Can you give me a big picture overview of how you've viewed Europe since the beginning of the year?

ALEXI MAKKAS: So, coming into 2025, we were looking at a continent that had a better fiscal position than the U.S. and many other regions across the globe. The Southern European economies have been growing better than the rest of Europe. And there's been stability, political stability, especially in Italy and Greece, which have been two countries that have provided problems for the EU, both economically and politically. And that's provided what we think is a very favorable backdrop now. We have a continuous easing cycle in front of us, the potential for Russia-Ukraine to be resolved, what that could mean for energy prices. And then compounding that with confidence, not just in Germany but across Europe, we believe Europe could really go through a period of relative outperformance. So, there are multiple different catalysts in front of us that make us arguably more bullish on the continent.

ALEX: Have any of these ideas trickled down to the names in your portfolios?

ALEXI: Sure. So, there's been a lot of discussion about the U.S. infrastructure spend, reshoring, what that means for manufacturing, the associated aggregates and cements that are needed for that. But there are European companies that have leadership positions here in the U.S. Within the aggregates and cement space in the U.S., they are very favorably positioned.

If some of this is to materialize, I think it could be a massive accelerant to earnings for these companies. And then again, if Russia-Ukraine evolves, that could be another driver.

So, we're optimistic with our current holdings, and looking at additional ways either to increase those or add additional positions, new positions, that would benefit from accelerating Europe.

ALEX: So, what we've learned today is cement and ramen.

ALEXI: Yes, as boring it gets, but we think they're surprisingly great businesses.

ALEX: I know energy in Europe is another big theme. Can you talk about that?

ALEXI: Yes, and we talked about a global energy renaissance, natural gas in particular. Here in the U.S., there's been a lot of attention put on GE Vernova and Siemens Energy. And they've caught a

lot of attention because of AI and the datacenter demand. But interestingly, those orders have only started to trickle in. What's been driving a lot of the rebuild or the planning here in the U.S. is just a natural function of the life of a natural gas turbine, which is typically 30 to 40 years. But there was a massive investment cycle back in the '70s and '80s. Those are now just coming to the point of replacement. And AI and the datacenter boom is just an additional driver. So, you have backlogs now that are out three years.

I think GE Vernova trades at a substantial premium to Siemens Energy. But I think Siemens Energy is better skewed to European market share and growth. I think the data point for Ukraine is something like 90 percent of natural gas. Plants and electricity transmission or distribution have been damaged or completely wiped out. There are three main suppliers, but GE Vernova and Siemens make up 75-80 percent of global market share of gas turbines.

ALEX: Thanks, Alexi. I also wanted to talk today about China. You have a feeling that China will potentially perform better relative to expectations? Don, can you talk about that?

DON SMITH: So, China has really been underperforming for a number of years. And many of the reasons are government actions imposed on the market that's inhibited growth activity, and resulted in higher unemployment. And coming into 2025, expectations globally were extremely low.

When you start to hear that China is uninvestable is often when we think you should be starting to take a look. There's been a property boom that's really been deflated by actions taken by the central government over the last three years. It's resulted in slowing growth, stress on banks. The government has had to put backstops underneath that. It's an action that has been needed for a long time because of excess. That's resulted in less job creation. It's also coincided with a crackdown by the government on some of the large Internet platform companies, technology businesses, along with tariffs imposed and geopolitical tension, resulting in lower economic growth.

But what we saw was a dramatic change in government stance last year, showing much more forceful approach across multiple metrics towards improving liquidity in the market, focusing more on positive corporate governance, on capital injections at the banks, shoring up the property market and it's kind of a multi-staged incremental approach. But right now, we're starting to hear bits and pieces where the government is focusing more on infrastructure, supportive policies, actions that can offset any increased tariff and trade tension.

What they have developed is world class manufacturing businesses that have been taking share and that's why we've seen a real decline in electric vehicle production outside of China. These are very efficient businesses that have been taking market share. It's a market where valuations were, like Europe, at multi-decade lows relative to the rest of the world. We think we are able to find very strong world class businesses with underappreciated growth. And one example would be Trip.com.

Trip.com is the leading online travel agency in China. We first purchased it as China emerged from COVID. We had seen the trend of consumers desiring experience over goods. The resultant improvement in the business, both first in domestic travel, then accommodations and now international travel has really improved operating leverage. At the same time, this is a company that is sitting on cash and buying back shares, so we think very well run, thoughtful and well-capitalized.

ALEX: Folks, before I let you go, I wanted to spend some time talking about your deep focus on market inefficiencies outside the U.S., which is a philosophy that really drives so much of your process. Mike, can you talk a bit about market inefficiencies?

MIKE: So, on market inefficiency, there's a lot of definitions of it. What we really try to do is identify the factors that lead to market inefficiency. And we found there are five key factors that define the amount of inefficiency in a market.

So, first is the number of companies in a market. That is the more companies, the more inefficient the market is. Then we looked at the number of

institutional investors that own shares. It is more challenging to trade against an investor that's at a sophisticated firm than someone who's an individual with less knowledge. And third would be the number of sell-side analysts that cover a company on average, the more analysts, the more information that's out there.

The other two directly connect to how we invest and how we talk about companies, which is the magnitude and frequency of forecast error in the sell side or the consensus estimates. We are looking, in our investment process, for forecasts that are materially different than the consensus. So, measuring how wrong the consensus estimates are and the frequency of that error. We put those five factors together in a simple equally weighted forecast we think it correlates very well with excess return potential. So, everything we do and how we've designed our investment process is to take advantage of that forecast error. And we think the amount of it in emerging markets and international markets is far greater than in the U.S. markets. We will not buy a stock unless our forecasts are materially higher than the consensus expectations.

EZRA: Very simply, we believe that stock prices are driven by long term earnings and free cash flow expectations. Now, if the markets expectations of the future earnings and cash flows were exactly right at all times, there would be no need for active management. Which is to say it would be a perfectly efficient market. Happily, our research and our experience, I think confirms that long term expectations by the consensus are not always right. In fact, they're very frequently wrong. And not only are they wrong, we believe they're wrong by a pretty significant magnitude.

And so, we look at the inefficiency that we're after and say where can we be most productive for clients in applying this? We believe it's in international and emerging equities.

ALEX: So, as an example, would you say that Japan is an inefficient market?

EZRA: Yes, I think Japan is an inefficient market for a number of reasons. First of all, there is a very large number of companies relative to a fairly small number of sell side analysts. So, to Mike's earlier point, you have a large amount of companies to cover and relatively few people covering it.

Also, the corporate governance traditions in Japan have not made it extra easy. Many Japanese companies don't publish their earnings and quarterly results in English. And so, you have extra friction in order to really come to a high conviction view in that country.

ALEX: So, I'll end on this, we'll throw this out to the group. What are some of the most exciting non-U.S. inefficiencies that you find investable?

MIKE: I think, for me, personally, the most inefficient area is in the smaller cap portion. You get the benefit of inefficiency as you do in the U.S. in small cap stocks, but you layer on the geographic opportunity as well.

ALEX: Alexi?

ALEXI: I think, specifically, Japanese small cap stocks. There are a lot of them. It just takes time to go through them. But they are virtually uncovered. And because of everything that's evolving, there's some really interesting and compelling ideas and many of them, I'd never heard of before.

ALEX: Don?

DON: For me, it's the opportunity I've seen over many years in emerging leaders, emerging brands in emerging and developed markets, but that are under appreciated, companies that build very strong brands that if you find them early in their life cycles, as they start to build out stores or new products that the opportunity is multi-decade. So, when we find one of those we get very excited.

ALEX: Yuda?

YUDA GOODMAN: To me, it's a cross section of quality and revisions. And typically, when a company has much better numbers than expected and very

high quality, especially in the U.S. and large cap U.S., you'd find that company being very expensive. And in some of these markets, especially emerging markets, you'd find that they're not necessarily that expensive.

ALEX: Ezra, final thoughts?

EZRA: I'm going to say the opportunity that's created in a global equity strategy, by the fact that you can go anywhere, the ability to mix and match I think is really an exciting opportunity.

ALEX: Thank you all so much for your time this afternoon.

ALL: Thanks, Alex. Great talking to you.

ALEX: And thank you for listening. As a reminder, you can still hear part one of our conversation on your favorite podcast players as well at Alger.com. Until next time, for more information about Alger Redwood international products and for more of our latest insights, please visit Alger.com.

The views expressed are the views of Fred Alger Management, LLC ("FAM") and its affiliates as of July 2025. These views are subject to change at any time and may not represent the views of all portfolio management teams. These views should not be interpreted as a guarantee of the future performance of the markets, any security or any funds managed by FAM. These views are not meant to provide investment advice and should not be considered a recommendation to purchase or sell securities.

Risk Disclosures: Investing in the stock market involves risks, including the potential loss of principal. Growth stocks may be more volatile than other stocks as their prices tend to be higher in relation to their companies' earnings and may be more sensitive to market, political, and economic developments. Foreign securities, frontier markets and emerging markets involve special risks including currency fluctuations, inefficient trading, political and economic instability, and increased volatility. Assets may be focused in a small number of holdings, making them susceptible to risks associated with a single economic, political or regulatory event than a more diversified portfolio. Investing in companies of small capitalizations involves the risk that such issuers may have limited product lines or financial resources, lack management depth, or have limited liquidity. At times, cash may be a larger position in the portfolio and may underperform relative to equity securities.

Important Information for US Investors: This material must be accompanied by the most recent fund fact sheet(s) if used in connection with the sale of mutual fund and ETF shares. Fred Alger & Company, LLC serves as distributor of the Alger mutual funds.

Important Information for Investors in the UK and EU: This material is directed at investment professionals and qualified investors (as defined by MiFID/FCA regulations). It is for information purposes only and has been prepared and is made available for the benefit investors. This material does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient, and is only intended for use by original recipients and addressees. The original recipient is solely responsible for any actions in further distributing this material and should be satisfied in doing so that there is no breach of local legislation or regulation.

Certain products may be subject to restrictions with regard to certain persons or in certain countries under national regulations applicable to such persons or countries.

Alger Management, Ltd. (company house number 8634056, domiciled at 85 Gresham Street, Suite 308, London EC2V 7NQ, UK) is authorised and regulated by the Financial Conduct Authority, for the distribution of regulated financial products and services. FAM, Weatherbie Capital, LLC, and/or Redwood Investments, LLC, U.S. registered investment advisors, serve as sub-portfolio manager to financial products distributed by Alger Management, Ltd.

Alger Group Holdings, LLC (parent company of FAM and Alger Management, Ltd.), FAM, and Fred Alger & Company, LLC are not an authorized persons for the purposes of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA") and this material has not been approved by an authorized person for the purposes of Section 21(2)(b) of the FSMA.

Important information for Investors in Israel: Fred Alger Management, LLC is neither licensed nor insured under the Israeli Regulation of Investment Advice, of Investment Marketing, and of Portfolio Management Law, 1995 (the "Investment Advice Law"). This document is for information purposes only and should not be construed as an offering of Investment Advisory, Investment Marketing or Portfolio Management services (As defined in the Investment Advice Law). Services regulated under the Investment Advice Law are only available to investors that fall within the First Schedule of Investment Advice Law ("Qualified Clients"). It is hereby noted that with respect to Qualified Clients, Fred Alger Management, LLC is not obliged to comply with the following requirements of the Investment Advice Law: (1) ensuring the compatibility of service to the needs of client; (2) engaging in a written agreement with the client, the content of which is as described in section 13 of the Investment Advice Law; (3) providing the client with appropriate disclosure regarding all matters that are material to a proposed transaction or to the advice given; (4) a prohibition on preferring certain Securities or other Financial Assets; (5) providing disclosure about "extraordinary risks" entailed in a transaction (and obtaining the client's approval of such transactions, if applicable); (6) a prohibition on making Portfolio Management fees conditional upon profits or number of transactions; (7) maintaining records of advisory/discretionary actions. This document is directed at and intended for Qualified Clients only.

Alger pays compensation to third party marketers to sell various strategies to prospective investors.

For the period ending April 30, 2025, the following represent Alger's total assets under managements: Toyo Suisan Kaisha, Ltd., 0.02%; Hitachi, Ltd., 0.02%; GE Vernova, Inc., 0.11%; Siemens, Inc., 0%; Trip.com Group Ltd., 0.06%.

Before investing, carefully consider the Fund's investment objective, risks, charges, and expenses. For a prospectus and summary prospectus containing this and other information or for the Fund's most recent month-end performance data, visit www.alger.com, call (800) 992-3863 or consult your financial advisor. Read the prospectus and summary prospectus carefully before investing. Distributor: Fred Alger & Company, LLC. NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.