ALGER

PODCAST TRANSCRIPT

The Shift Back to Growth

ARTHUR NOWAK, CFA
Vice President
Product Specialist

ALEX BERNSTEIN: Hello, I'm Alex Bernstein and you're listening to The Alger Podcast, Investing in Growth and Change. After six months of fairly intensive market churning, investors may be asking *what happened to growth stocks?* and what might I expect for growth stocks during the second half of this year? Here to explore some of those questions is Alger Vice President and Product Specialist for the Investment Research team, Art Nowak. Art, thanks so much for joining me on the podcast.

ART NOWAK: Thank you for having me on, Alex. I appreciate the opportunity.

ALEX: So, Art, how would you sum up what happened in the markets for the first half of the year? And why was growth investing hit so hard?

ART: So, before January of last year, we were in a decades plus long secular bull market driven by innovation and growth stocks. In fact, from the end of the global financial crisis in 2008 to the beginning of last year, the S&P 500 growth outperformed the S&P value by an average about 500 basis points a year. So, this was a bull market that was driven by a growth investment.

However last year, we believe there were two distinct rotations out of growth into value. The first really was at the beginning of the year. Everybody thought we were going to have this grand reopening before omicron hit. So, people were buying a lot of the areas that had been hit hardest during the pandemic. So, they were focused on bidding up airline stocks and cruise stocks and kind of avoiding the AI companies and the cloud computing stocks of the world, where we invest in general at Alger.

And then the second rotation was in November when inflation fears started to come about, and The Fed started to talk about having to raise interest rates to curb inflation. And so, this led to a selloff on long duration assets, stocks that we believe are going to be growing over the next ten years. People exited those and more cyclical, value-oriented stocks that paid cash out to investors in dividends and buybacks became in favor.

But at Alger, we expect growth companies to retake the mantle from their value counterparts in the future. I think that the growth companies that we invest in are still fundamentally sound companies. But we're going to go through times where our investment style is out of favor. And this just happens to be one of those times. knitting.

ALEX: Art, one of the primary concerns today for investors is the current rising rate environment. How concerned are you with the Fed's actions regarding interest rates?

ART: So, we're really not concerned about interest rates rising, mainly because when interest rises generally the economic growth slows. And that's in general, a boon for growth- oriented stocks, because these companies can create their own growth while value companies and cyclicals depend on a rapidly growing overall economy, and they tend to struggle when GDP slows down.

In fact, we looked at the last four tightening cycles and what we think happens is value stocks take over in the six months before and the three months after the first-rate hike. But after that nine-month period, growth stocks tend to take over the mantle and outperform. And we're definitely seeing some significant dislocation in the valuations and some of the areas of the market, specifically mid-cap growth and small-cap growth.

ALEX: And when you say dislocation, what do you mean exactly?

ART: I think the simplest way to put it is that we believe the prices in areas like mid and small-cap growth aren't reflecting the fundamentals of the stocks that we're investing in. I think a good example of that would be the S&P 400 mid-cap growth benchmark.

Today, the S&P 400 mid-cap growth, it's trading probably about 40 percent lower than it has over the last 20 years. So, what we've really seen in mid and small-cap stocks is that the price in that PE equation has dropped significantly over the short term, while the earnings of these companies, they've stayed steady and, in some cases, grown.

So, that really leads us to believe that a lot of these stocks are deeply undervalued, especially when compared to their large-cap brethren. And we think this could be a coiled spring for these growth stocks moving forward. I said that the last time we saw these types of deep discounts in valuations was about 20 years ago, and that was right after the dot com fiasco in the early 2000's. From 2002 to 2005, after that bubble burst, mid-cap growth stocks outperformed the S&P 500 by almost 500 basis points a year.

ALEX: Is this the first time, historically, you've seen growth companies at such a deep discount?

ART: It isn't the first time, but the last time was a long time ago. Like I've said, we've seen a pretty good bull run driven by growth stocks. So, we haven't seen these valuations in a long time.

ALEX: How long do you expect this opportunity to last?

ART: So, the first-rate hike this year was in mid-March, so we're fast approaching the end of that three months after the first-rate hike. So, if history repeats itself, we could see that discount start to tighten in the near future.

We're also seeing some other tailwinds in the market as companies start to rebuild inventories. We're seeing China loosen some of their COVID lockdowns, which should help ease supply chains. So, we think we're definitely seeing some tailwinds for innovative growth stocks. And we're hoping that these deep valuation discounts that we're seeing start to close sooner rather than later. So, I think once the tide changes and we switch back to a growth regime, that gap will tighten pretty quickly.

ALEX: Art, I know, in this market environment, one of the asset classes that you're particularly excited about is mid-cap, and in terms of products, Alger's Mid Cap 40 ETF. Why mid caps and why mid-cap ETF, right now?

ART: So, we like mid-caps because we believe they're passed the stages of infancy that small-caps have to fight through. And in general, we think they're overlooked and underutilized by investors and analysts alike.

So that's kind of why mid-cap right now. And why I think the Alger Mid-cap 40 ETF? The Alger Mid-cap 40 ETF, it's an actively managed semitransparent ETF managed by Amy Zhang. It's focused, concentrated, it has a high active share, so it's not a benchmark hugger. Usually when people think ETFs, they think passive. This is not that. And so, it's a portfolio of the 40 highest conviction names Amy finds in the mid-cap space.

At Alger, we invest in exceptional growth companies undergoing positive dynamic change and we think our competitive edge is identifying those companies and capitalizing on the change before it is recognized by the market, and so stock selection is really our forte. We're benchmark agnostic, we focus on in-depth, fundamental, bottom-up research and try to develop a differentiated view. So, like I said, we've seen the same valuation compression in this portfolio that we've seen in the U.S. benchmarks. So, we do think there might be great opportunity for growth going forward with the Alger Mid-cap 40 ETF and the ticker on that is FRTY.

ALEX: You mention Amy Zhang, the portfolio manager on Mid Cap 40 ETF. And by the way, if investors would like to hear directly from Amy about this ETF product, we had her on the podcast last time, and her insights into this market were very interesting. Anyway, I wanted to ask you, Art, how do you think Amy handles volatility?

ART: Absolutely. One of my favorite quotes from Amy is that knowledge reduces risk. And she has a team of seven analysts. And so, once we invest in a company, we don't just let it sit. We're constantly doing channel checks, we're constantly reaching out to competitor CEOs to see if the moat that we think we have in a company is closing. We talk to the customers for the companies that we invest in to make sure that the products are staying in line, with what we expect from them. And so, we make sure that we know our companies that we invest in exceedingly well. So that is kind of on a qualitative basis how Amy thinks of risk. She thinks that knowing the companies better than the street gives us a leg up in terms of any deteriorating fundamentals within the companies we invest in.

And on a quantitative basis, Amy gets reports from our director of Quant and Risk Management on a monthly basis which shows kind of macro risks that we have within the portfolio. It shows areas where we might be overexposed, and it shows factor exposure. So, we can really keep an eye on the overall portfolio on a quantitative basis and make sure that we're keeping an eye on areas of risk within the portfolio..

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

ART: Thanks, Alex, really appreciate you having me on today.

ALEX: And thank you for listening. For more information on Alger Mid Cap 40 ETF, other Alger ETF products, and of course, our latest insights, please visit www.alger.com.

DISCLOSURE

This ETF is different from traditional ETFs.
Traditional ETFs tell the public what assets they hold each day. This ETF will not. This may create **additional risks** for your investment. Specifically:

- You may have to pay more money to trade the ETF's shares. This ETF will provide less information to traders, who tend to charge more for trades when they have less information.
- The price you pay to buy ETF shares on an exchange may not match the value of the ETF's portfolio. The same is true when you sell shares. These price differences may be greater for this ETF compared to other ETFs because it provides less information to traders.
- These additional risks may be even greater in bad or uncertain market conditions.

The differences between this ETF and other ETFs may also have advantages. By keeping certain information about the ETF confidential, this ETF may face less risk that other traders can predict or copy its investment strategy. This may improve the ETF's performance. If other traders are able to copy or predict the ETF's investment strategy, however, this may hurt the ETF's performance. For additional information regarding the unique attributes and risks of this ETF, please refer to the prospectus.

The views expressed are the views of Fred Alger Management, LLC (FAM) and its affiliates as of July 2022. 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. Holdings and sector allocations are subject to change.

Risk Disclosures: The Fund is an actively managed ETF that does not seek to replicate the performance of a specified index. The Fund does not provide daily disclosure of its portfolio holdings, but instead provides a verified intraday indicative value ("VIIV") calculated and disseminated every second throughout the trading day. The VIIV is designed to be a highly correlated per share value of the underlying portfolio, but there is a risk that market price of the Fund may vary significantly from its NAV. The VIIV Calculation Methodology and a historical daily comparison of the Fund's VIIV to its NAV is available on www.alger.com. The Fund trading on the basis of a VIIV may trade at a wider bid/ask spread than ETFs that publish their portfolios on a daily basis, especially during periods of market disruption or volatility, and, therefore, may cost investors more to trade. Although the Fund seeks to benefit from keeping its portfolio information confidential, market participants may attempt to identify a Fund's trading strategy, which, if successful, could result in such market participants engaging in certain predatory trading practices that may have the potential to harm the Fund and its shareholders. The Fund's shares trade in the secondary market on NYSE Arca, Inc. and therefore may experience associated risks, such as the potential lack of an active market for Fund shares, losses from trading in secondary markets, periods of high volatility, and disruptions in the creation and/or redemption process of the Fund. Any of these factors may cause the Fund's shares to trade at a premium or discount to NAV. Creations and redemptions in the Fund occur through an agent called an "AP Representative" who is not obligated to engage in creations or redemptions. The Fund may have a limited number of AP Representatives and if AP Representatives are not able to proceed with creations and/or redemptions the Fund's shares may trade at a discount to NAV and possibly face trading halts and/or delisting, and investors could experience significant losses as a result.

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. Technology companies may be significantly affected by competition, innovation, regulation, and product obsolescence, and may be more volatile than the securities of other companies. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on investments. A significant portion of assets may be invested in securities of companies in related sectors, and may be similarly affected by economic, political, or market events and conditions and may be more vulnerable to unfavorable sector developments. Investing in companies of small and medium capitalizations involve the risk that such issuers may have limited product lines or financial resources, lack management depth, or have limited liquidity. The Fund is classified as a "non-diversified fund" under federal securities laws because it can invest in fewer individual companies than a diversified fund. 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**. Past performance is not indicative of future performance.**

The S&P 500 Index is an unmanaged index considered representative of the U.S. stock market without regard to company size. S&P MidCap 400 Index is an unmanaged index considered representative of mid-sized US companies. The S&P Mid-Cap 400 Growth Index is an unmanaged index considered representative mid-capitalization U.S. equities that exhibit growth characteristics.

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.

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) 223 3810 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.

Fred Alger & Company, LLC 100 Pearl Street, New York, NY 10004 / 800.305.8547 / www.alger.com