

Picking Winners in the Grand Reopening

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"We believe we have a good idea of what will remain strong growth trends both during the reopening and after." Alger Chief Investment Officer and Portfolio Manager Dan Chung explains how he manages the focused, best ideas portfolio Alger 35.

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ALEX BERNSTEIN: Hello, I'm Alex Bernstein and you're listening to The Alger Podcast, Investing in Growth and Change. As many investors know, earlier this year Alger launched its very first ETF product, the Alger Mid Cap 40 ETF managed by Portfolio Manager Amy Zhang. Recently, we launched our second ETF, the Alger 35 ETF, which is a focused, best ideas portfolio managed by Alger Chief Investment Officer

and Portfolio Manager, Dan Chung. And here today to talk with me about Alger 35 is Dan Chung. Dan, it's great to have you back on the Alger Podcast.

DAN CHUNG: Thanks, Alex.

ALEX: Dan, just to start off, can you give us an overview of what the Alger 35 strategy is, and how you manage it?

DAN: So, Alger 35 is a best ideas portfolio where I look across all of the research and ideas of our analysts and portfolio managers and try to determine what are our highest conviction ideas, where we have the most differentiated research and insights, and also what provides as stocks the best risk/reward for the current market environment. And try to focus the portfolio on what we think of as classic Alger stocks.

I've always been driving our analysts and portfolio managers as they apply our investment philosophy to think of what are the names that had the strongest fit with the core of our philosophy of either strong high growth or very strong life cycle change factors, and not ignore but realize that there's a lot of stuff in between that may be interesting.

So, the range of ideas that we're looking at, and in particular because Alger 35 I want to be an all-cap strategy, not simply large cap stocks, there are a lot of really interesting high conviction mid cap and small cap ideas that of course simply can't make it into the portfolio given the number limitation.

ALEX: Given the size limitation, is it difficult to get a mix of mid and small cap names in there?

DAN: Well, it's just tough in terms of there's a lot of ideas across the firm and getting down to some really strong mid and small cap ideas is difficult. I think small cap in particular. When we think there's an alignment of attractive risk/reward, a strong interest in the theme that the small cap stock might represent. The small cap probably has by far the highest barriers to get into the portfolio.

ALEX: Dan, one thing I wanted to touch on before we go any further is the significance of the number 35, itself. Can you talk a little bit about that?

DAN: So there's a lot of significance around 35. That represents the number of Alger colleagues and friends we lost on September 11th, 20 years ago. And so, the fund is definitely named in their honor and memory. And we're also doing something special with it in that we're donating a percentage of our management fees to charities. We've been very active in charities for a long time, but it particularly accelerated after September 11th. We are certainly supporting charities that were either favorites of or some actually created in memory of our lost colleagues, so that's one key group. But also, over the years, Alger has an employee-run charitable committee and we have focused on other issues, social justice, relief of student debt for nurses and other issues, environmental issues. I expect the charitable donations from Alger 35 to continue to support the range of charities that Alger supports.

ALEX: Dan, I wanted to discuss some of the themes that you're focused on. I know that digital transformation has been a big theme across a lot of Alger strategies for quite some time now. Is that reflected in this portfolio as well?

DAN: It certainly is. The leading technology companies are helping businesses transform their operations and their processes to digital based ones. And it is also a digital business transformation for retail, not only from brick and mortar to their website but internally how they manage their business, how they market their business, how they serve their customers is all transforming to digital and online processes rather than traditional ones. And so, a lot of the companies that we invest in are some of the leaders in those transformations. Another theme within the portfolio is the emergence of online sports betting and gambling. So, we identified that opportunity very early and have an investment in Alger 35 and one of the leaders in that space. So, that trend of course is a digital and online trend. Across every subsector of our economy, our personal lives, the adoption of digital technology essentially is changing how we do almost everything. I would say one of the stronger trends within the portfolio is in the consumer and payments area where there's been a lot of change driven by COVID in terms of the adoption of mobile payments. And also, with those payment platforms, consumers potentially changing their financial relationships from traditional banks to new providers of financial services. And so, I

think that's actually one of the biggest opportunities in the financial services sector and one of the biggest changes that we see occurring.

ALEX: I know you also consider the current reopening of the economy a theme unto itself within the strategy. Now that things are beginning to significantly shift in the economy, is it difficult to identify which companies will have long term legs when you know that things might be very different in six months?

DAN: Well, that's a great question. One of the biggest challenges right now is companies that benefitted from COVID, what will their growth rates be in the second half of this year and as we normalize in 2022. That debate is one where we spent a lot of time researching the fundamentals of industries, the competitive positioning of the companies that we follow, and also what are the underlying trends long and short term that benefit them or hurt them?

So, it remains to be seen but we're pretty confident that with the deep research team that we have and the experience that we have, we believe we have a good idea of what will remain strong growth trends both during the reopening and after. The simplest example I could give is we do have some direct consumer plays that benefit from the reopening and are high growth that can simply be looked at as their market opportunity and size. So, for example the restaurant industry with literally tens of thousands of restaurants that probably went out of business during COVID, many of which will never come back.

The opportunity actually is that for publicly traded restaurants and companies that service that industry, we believe the publicly traded players are better financed and better capable of taking advantage post-COVID into the recovery of a combination of factors that actually will be quite favorable for them, including probably lower real estate rental costs because of landlords pressured to basically cut rates in order to try to fill now empty spaces.

Two, less competition from independent privates that went out of business. Three, given the still relatively weak state of the economy, unlikely that they'll be facing the traditional startup restaurant pressure. But on the flipside, four, because they're public and most have continued to invest in their business actually during this period, they've actually successfully increased the takeout and delivery portion of their businesses and are now very well set up as physical restaurants can reopen to actually grow well beyond what they had been expected to grow before COVID. So, it's an interesting situation in the restaurant industry.

DAN (continued): And then finally of course I guess I should have noted, probably one of the things that is most likely to return to normal most quickly is, I think, dining out at restaurants. I think there's other issues with high-end business travel, international travel where in other countries the situation still looks tenuous. And even businesses that are highly dependent on employees working from offices and commuting as opposed to remote work. But the consumer-driven restaurant business to us looks extremely interesting and very attractive right now.

ALEX: Dan, I know that Alger analysts and portfolio managers are now reviewing their companies with a greater focus on ESG – or environmental, social and governance – considerations. Can you tell me how you take ESG into consideration with this strategy?

DAN: So ESG principles have been integrated across Alger's investment research for a couple of years now, which means that every company that we follow we regularly review both their third-party ratings in terms of sustainability, governance and social factors, as well as our own analysts and portfolio managers conduct research and interviews with companies, experts and others to assess a company's position both with respect to its industry but also on an absolute basis with respect to environmental, social and governance factors. So, with respect to this strategy, we are what I would say ESG aware as we're investing across Alger. So, with the U.S. President Biden re-engaging with the climate accord and the infrastructure bills that are pending, we're quite optimistic that the growth that we've seen in renewable energy for example in sustainable business practices is not only going to continue, but potentially it's going to accelerate dramatically.

So, one example actually is we have some significant exposure to solar energy companies within the portfolio where we believe solar is clearly one of the leading solutions to climate change. And at the same time, it's actually also a cost efficiency in terms of energy at this point, having reached in many places, parity or even less below parity in terms of cost with traditional oil, coal and other sources of electricity.

So, we see solar energy actually as a high growth industry for decades to come. I would say that's an example of one of the stronger themes where we've invested a part of Alger 35.

ALEX: Dan, my final question – I know it's been a long year, year and a half now for you as both a portfolio manager as well as chief investment officer at Alger. How do you personally relax? I mean, have you been able to unwind at all?

DAN: Well, I have to say it's actually challenging. It's interesting. A lot of surveys would suggest that people really like remote work and think that they're more efficient, but there are other surveys that would suggest that a lot of people are actually quite burned out by remote work. They have a harder time distinguishing between when to shut off working and when to have personal time.

I've tried to find some time off. I think like a lot of Americans. I didn't have to go out and buy a bike. I've been a big cyclist. Right now, by the way, there's a shortage in cycles. Nobody can get any bikes it would appear. So, I've done a little bit more cycling than normal, which is kind of nice. But frankly other than that, I've been working pretty nonstop.

ALEX: Dan, thanks so much for joining me this afternoon.

DAN: Thanks, Alex. Great talking with you.

ALEX: And thank you for listening. For more information on the Alger 35 ETF and for more of our latest insights, please visit www.alger.com.

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