Mid Cap Growth Strategy

Autumn 2022

Q & A with Brandon Geisler

Mid cap stocks are an underappreciated market segment, yet they have historically demonstrated some of the best characteristics of large and small cap equities, which is particularly appealing for active portfolio managers.

Brandon Geisler is a 21-year veteran of mid cap investing and recently joined Alger as a portfolio manager of the Alger Mid Cap Growth Strategy. In this Q&A, he provides insights into investing in the exciting mid cap growth market.

Brandon Geisler

SENIOR VICE PRESIDENT
PORTFOLIO MANAGER

Can you provide some details about your background?

I began my career as an intern at Goldman Sachs in the summer of 2001 and then started working full-time the following February as a Vice President of Equity Research in the consumer, technology, and energy industries.

A few years later, I joined Denver-based Marsico Capital Management as an analyst. During my 16 years at the firm, I progressed from research analyst to partner, managing director of research, and portfolio manager. I had several roles at Marsico, but more importantly, I learned about growth investing and the importance of performing original, bottom-up research to develop my investment style.

What was one of the most impactful lessons you've experienced in your investment career?

While at Marsico, we coped with turbulent markets, extreme volatility and a difficult macroeconomic environment, particularly during the global financial crisis in 2008-2009 and the COVID-19 pandemic in 2020. Those years had a significant influence on my investment philosophy. For example, I pursue high-quality companies with relatively low debt that can weather economic downturns and thus achieve greater stability.

What about portfolio management inspires you?

I examine and analyze trends in every sector which allows me to apply observations gleaned and data collected and from one industry or sector to others. Broadly, developments in the technology sector often have a ripple effect on other sectors, such as consumer discretionary and health care.

One specific example that comes to mind involves client management software (CRM) implementation by high-end hotels and retailers. Those retailers who invested in CRM technology boosted revenues above competitors because of the critical customer data and trends observed through their CRM system. As a portfolio manager, I can invest in both the company that created the CRM system, as well as the companies that are benefiting from the technology.

> In constructing our portfolio, we categorize our holdings into three buckets and consider a pendulum effect when determining the exact allocation between the three buckets, depending on market conditions. The three buckets and typical allocations are: Aggressive Growers (~20%), Growth Compounders (~60-80%) and Life Cycle Changers (~20%).

What is your approach to managing the Alger Mid Cap Growth strategy?

The strategy will be growth-oriented, following Alger's investment philosophy regarding High Unit Volume growers and Positive Life Cycle Change companies. The portfolio holdings will combine strong growth characteristics and quality metrics such as balance sheet strength, revenue growth and consistency, margin profile, and free cash flow.

Investment Philosophy

The essence of the investment philosophy is using our fundamental research to identify and invest in mid cap stocks with robust growth potential that also demonstrate high quality characteristics. In constructing the portfolio, we categorize our holdings into three buckets and consider a pendulum effect when determining the exact allocation between the three buckets, depending on market conditions. The three buckets and typical allocations are: Aggressive Growers (~20%), Growth Compounders (~60-80%) and Life Cycle Changers (~20%).

Portfolio Construction

The majority of the portfolio falls into the Growth Compounders bucket. These are companies that have advanced from the early stages of growth to now offer a more consistent and diversified business with a strong growth trajectory. The other two buckets where we draw ideas to complement the portfolio are companies undergoing positive life cycle change and firms exhibiting aggressive growth attributes. Life Cycle Changers are companies and/or industries that are undergoing significant change and benefiting from events such as new management, innovative products, mergers or acquisitions, and restructuring. In other words, a catalyst driving these companies to undergo a "growth renaissance." Aggressive Growers refers to disruptive growth companies with large total addressable markets and the ability to grow rapidly while taking market share.

Another important goal is low turnover. The majority of companies feature mature businesses with lower variability. Typically, these stocks tend to be in the technology, health care, business services and consumer industries. We want to invest the core of our portfolio in high-quality long-duration investment ideas that should enable lower turnover and lower trading costs, which we believe will ultimately improve returns.

Market Capitalization

Over time, we anticipate a weighted average market cap between $20-25 billion.

How does your investment process align with The Alger Way of investing?

We utilize original, bottom-up, fundamental research to identify companies expanding faster than the market.

Another similarity is a pursuit of companies experiencing positive changes or companies that occupy unique market positions. We seek companies with distinct attributes that we believe lead to superior revenue and profit growth. It's not surprising that Marsico's investing approach is similar to Alger's because Marsico founder Tom Marsico trained under David and Fred Alger when he was an analyst at Alger in the 1980s.

What should investors expect from this portfolio going forward?

The core of our portfolio will be primarily comprised of compounding growth companies that offer strong total return, which in some cases includes organic growth, mergers and acquisitions, and share repurchases. In addition, we emphasize investments in high-quality companies in several sectors. Companies in some sectors may now be experiencing downturns in the volatile market, but they can still represent excellent long-term holdings. To find the "diamonds in the rough," we attempt to identify unique opportunities by searching for high-quality companies in underperforming sectors such as industrials, aerospace and interest rate sensitive companies that others may not be considering.

We may also select companies based on their ability to prosper from megatrends, such as automation, robotics, labor competition, and green energy.

Over the next few years, our goal for the strategy is to have a volatility profile that may be in line with or better than the benchmark, while also achieving an overall portfolio turnover of less than 50% and thus be more tax aware.

Additionally, we will strive for a relatively lower tracking error to create a smoother ride and lower volatility for investors.

Can you tell us about Alger's new Denver office, where you'll be located?

We have opened a new office in Cherry Creek, a suburb of Denver. The city is a hub of financial services and a center of action for our clients and peers.

Our plans include building a team of analysts and drawing from the large pool of talent in the area. We will also collaborate with the central research team in New York City and obtain specialized coverage on a daily basis.

> To find the "diamonds in the rough," we attempt to identify unique opportunities by searching for high-quality companies in underperforming sectors such as industrials, aerospace and housing-related companies that other analysts may not be considering.