Resilience in the Face of Turmoil

An Interview with Daniel C. Chung,
Chief Executive Officer and Chief Investment Officer, Fred Alger Management, Inc.

EDITORS' NOTE *Daniel Chung is also Portfolio Manager of a number of Alger funds. Chung joined Alger in 1994 and has over 17 years of investment experience. He was named Chief Investment Officer in September 2001, President in 2003, and CEO in 2006. Dan graduated from Stanford University and earned his J.D. magna cum laude from Harvard Law School in 1987, where he was an editor of the* Harvard Law Review. *After clerking for the Honorable Justice Anthony M. Kennedy, United States Supreme Court, Dan joined the law firm of Simpson Thacher & Bartlett LLP in New York City. Chung practiced corporate tax law, involving complex financial transactions, investments, and mergers and acquisitions. Chung is a CFA charter holder and a member of the CFA Institute.*


Daniel C. Chung

COMPANY BRIEF *Founded in 1964, Fred Alger Management, Inc. (www.alger.com) manages more than $17 billion. Alger's investment philosophy since its founding focuses on discovering companies undergoing positive dynamic change by using in-depth, proprietary research. Alger investment strategies are available for defined benefit and other retirement accounts, institutional investors through separate accounts and mutual funds, and retail investors through Alger mutual funds and separately managed accounts.*

Were you surprised by the speed and severity of the recent economic crisis and how was Alger positioned during that time?

In 2007, when the first issues appeared in the sub-prime market and financial sector, our portfolios had minimal or no exposure to the financial sector. As a result, we had excellent performance in 2007 and ended that year with many of our portfolio short- and long-term records in the top 10 percent of our peer group. Five years after 9/11, we had once again achieved our vision of Alger as an industry leader.

Going into 2008, our portfolios didn't have exposure to the failed companies at the center of the crisis. Yet that couldn't insulate them from the market turmoil because of a stunning rise in correlation among all U.S. equities (and other asset classes). For equity investors, there was no place to hide in the second half of 2008 and early 2009.

What allowed us to outperform in 2009 post-crisis was our clear vision and dedication to Alger's time-tested investment philosophy and process. We are a disciplined, independent investment manager, carefully managed for long-term success by maintaining a fortress balance sheet to weather any storm. When the market deteriorated, we didn't need to change our business model or become distracted. Our independence and financial strength has served our investors well for nearly 50 years.

By early 2009, we saw this high correlation had led to a stunning drop in many equities without regard to their actual fundamentals, and thus, we were very excited about the equity market. Our team of 30 investment professionals began to see opportunities across many sectors and we seized upon them for the benefit of our investors. Hence, 2009 was a terrific year in terms of returns and in helping our clients to achieve their investment goals.

Do you foresee growth coming more from emerging markets and becoming more stagnant in the U.S.?

People are confusing economies with companies. Economic growth in emerging market countries will be higher than in developed countries. However, emerging markets will also have higher inflation, higher wage pressures, and much more potential change and uncertainty regarding margin structures. Many companies operating in emerging markets will be challenged by both rising competition and the expansion and change that is occurring in these countries. Smart investors are focusing on the companies that will see superior growth in revenues and profits from such expanding markets, not on their country of incorporation or domicile.

There are new players, for example, entering China, Brazil, and India all the time. For some of the well-entrenched local companies who have had an easy time of it, the next decade won't be so easy for them. In the consumer-retailing sector for example, most every international brand is now operating in China. And they're not operating with just one demo store, but with growing chains of stores and operations, and thus, developing a greater understanding of the nuances of the local markets and consumers. U.S. companies like Nike, Starbucks, Yum! Brands, and others are already seeing success in China.

Investors focusing only on the economic growth of emerging markets are missing a critical point: growth opportunities in emerging markets are creating new opportunities for many U.S. companies. The recent market volatility offers a significant opportunity to invest in American companies that will do great things overseas for the next decade. At Alger, we are investors who see change as a catalyst for investment opportunities and no where in the world is change happening more quickly, across many sectors, than in emerging markets.

As a company that was so heavily hurt by 9/11, how did you recover?

On 9/11, we lost 35 of my friends and colleagues, including David Alger who was the CEO of the firm and the brother of the founder Fred Alger, who had retired in 1995.

There are a lot of factors that contributed to the ability of the company to recover and rebuild. First was the vision that we articulated immediately after 9/11; that we would commit ourselves to rebuilding the firm. As an investor, I've always been fascinated by the character of visionary innovators and leaders. A key trait among such individuals is having an unwavering belief in yourself and what you want to do. So we had a strong foundation as a money manager with our proven investment process and philosophy. On the investment team, only four of us survived. But I knew that those colleagues we lost would want us to rebuild, continue our legacy, and become a bigger and better Alger.

We did consider looking for star investment managers at other firms who would help us rebuild Alger. While we might have been successful in the short term maintaining the business, we would not be recognizable as Alger in 5 to 10 years. The culture and thus personality of the firm, particularly its investment culture, would change and I did not want that.

One of Alger's greatest strengths was, and is, our culture. We were fortunate so many of our alumni chose to return bringing their innate sense of Alger's culture home. We were equally fortunate that many employees stayed and others chose to join us immediately in the aftermath of 9/11. They joined me in rebuilding Alger, for which I am enormously grateful. Finally, many of our clients stood by us as a testament to Alger and our people. I remain optimistic about the future of our company and the investment opportunities that exist today. ●

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