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The following is a transcript of the Alger Emerging Markets Strategy Podcast.

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KEVIN COLLINS: Hello. This is Kevin Collins, Client Portfolio Manager at Alger. Welcome to our emerging markets update with Portfolio Manager Deborah Vélez Medenica. In this podcast, Deborah discusses the strong performance of emerging markets, her optimistic outlook for the asset class, and her fundamental research strategy. This is a particularly compelling time to be looking at emerging markets as they've recently attracted abundant investor attention given the strong relative performance.

Deborah, thank you so much for joining me today. Can you start by discussing the performance of emerging markets and giving us some perspective on the asset class?

DEBORAH MEDENICA: I think we were already looking at a very good year for emerging markets as we came into this year. I mean, we were talking about 20 percent earnings growth. Performance has been a bit of catch up on last year, a bit of people excited about the earnings outlook across the emerging world and a bit of multiple compression.

But if you were just to look operationally, country by country, for the most part we had very strong earnings last year. Low double digits. And the performance in the equity market didn't really reflect all of that earnings. So, I think this year is a bit of catch up, a bit of multiple narrowing.

One of the ways that you can do a developed markets to emerging markets comparison is to look at the discount on the forward price earnings. And you have a little bit of confidence around the earnings. And I think this year and next year, when we're looking at the estimates that consensus is throwing out, those numbers look very realistic.

I think that people have gotten a little bit myopic about returns in emerging markets and they're very focused on this near term. What I like to remind people is that this is really a young asset class. If you look at the inception of the index from 1989 through the end of 2016, emerging markets, on a per annum basis, has outperformed the developed world by almost 400 basis points. And if you look at just the last ten years, 2006 to the end of 2016, it's outperformed by almost 300 basis points. So this really is an asset class about a very fast changing world.

KEVIN: What factors other than earnings growth and valuations make this an attractive time for investing in emerging markets?

DEBORAH: Brazil, some of the shorter term indicators that you would look at to see if an economy is stabilizing have started to improve. And in Russia, the expectations for 2017 were that Russia was going to begin growing after we've had a couple of years of subdued growth there. And it looks like we can maybe bring that forward a little bit. So those are two of the so-called BRIC markets.

KEVIN: Let's talk about geopolitics – which has been a concern recently. How do you manage geopolitical risk when managing your portfolio?

DEBORAH: Geopolitics, economics, military movements - all of these very newsworthy items are constant in the emerging world. So, one of the reasons why the emerging world has a discount to the developed world is because we're very used to having what I call "noise" in our markets.

Sometimes there's more than noise, and a lot of times it's just noise. This year, there have been a few notable geopolitical issues that have gotten the attention of markets and market participants. And it's something that filters into our top down analysis when you're thinking about your risk parameters.

So for example, more volatility in the currency might make people nervous. New administration, maybe not a continuation of previous policies. We might not want to be aggressively overweight in that country. And that's how it feeds into your decision-making process.

So, we see if we can't put some parameters, some probabilities and some pricing around them when we think about how you make allocations between markets.

But at the end of the day, we are not military or geopolitical strategists, we're stock pickers. And that's really what we try to do here - pick the stocks that are going to get you those great portfolios, to get you those returns over the longer term.

KEVIN: Deborah, can you tell us a little bit more about how you sector selection plays in your process?

DEBORAH: People still think we're a very commodities/ energy heavy type of place. And emerging markets are always very dynamic, but we've had a lot more issuance in the technology sector. And we've had a lot more growth in the consumable sector.

When you look at the composition of the indices today, information technology is actually the largest component of the MSCI Emerging Markets Index, and certainly when we think about positive dynamic change and issues around growth and innovation, technology is an area where we found a lot of interesting companies that fit the type of profile that we like to think about here for growth.

We always talk about this idea of middle class consumption, because it's such a powerful global change factor. The pace of consumption is moving so fast that in those next few years we're going to have about 60 million people a year and if you think about in U.S. terms, that's taking the population of California and New York and throwing it at middle class consumption every year.

And that means by the time we get to around 2020, for the first time in history we'll have a larger consumption class around the globe than we will a class of people in poverty. So, I just think this idea of middle class consumption is very powerful. We used to talk about it - it's coming, it's coming, it's coming. And now it's here. And we already have a few years of data where we can say it's beginning to transform the world. Today, we spend about 35 trillion U.S. dollars in consumption around the globe. And that number's almost going to double over the next 10 to 15 years, so we'll go from 35 trillion to around 60 trillion. So that type of growth – that 60-70% growth we're going to see - is pretty much all coming from the emerging world.

KEVIN: You mentioned to me that you've had a recent "surprise" in financials?

DEBORAH: The surprise in financials, if you want to call it a surprise, has been that we have been underweight financials for a number of years, because we were underweight Chinese banks. And in the case of China, we had very big banking deregulation happen a few years back, where they liberalized lending rates and liberalized deposit rates. Whenever you have big bang in the banking industry, it usually takes a little bit for the industry to adjust. And China was no exception. And what you saw for the last couple of years was actually reported non-performing loans, going up quarter over quarter. So, their reporting was becoming more realistic. And what we saw in the back half of 2016 was that net interest margins had actually stabilized and they were no longer compressing as fast.

So one of the reasons that we became interested in the Chinese banking sector again was that you could see an environment where the banks now know how to operate with lending and deposit rates. So, Chinese banks, after being unattractive for so long, began to look attractive.

KEVIN: Deborah, at Alger, we believe innovative companies are often attractive investment opportunities because they have potential to rapidly grow earnings. How does innovation play in emerging markets? What's the difference applying innovation themes in emerging markets to that of the developed world?

DEBORAH: How people think about innovation here in the United States is very different than how you might think about innovation in the emerging world. When we talk about this idea of the middle class, the per capita incomes in the emerging world are much lower than in the developed world.

So you have to, as a company, think about how you innovate a product and service to get to the volumes and the mass market that you need. One of the examples I could give you is the case of India.

People have heard me talk about how the sub $100 smartphone has been pretty transformational to the emerging world. So just this month, a new disruptive entrant into the Indian cellular market announced that they will begin beta testing a sub $25 smartphone. So, if a sub $100 smartphone is powerful in terms of getting to the masses, think about a sub-$25 smartphone.

Another way to think about innovation is platforms on the Internet. We actually have more Internet users in China, given the size of the population, than we have here in the United States. And we have a company there that is a social media giant.

And they have an ecosystem around their online chat service which actually has more users than there is a population here in the United States. And they grow at about 55 percent year over year revenue growth. And they continue to find ways to keep users on their system.

So, there's lots of room to do things on the advertising space, things that are more interesting to the gaming user in Asia, whereas we really don't have a compare here in the United States.

KEVIN: One last question I'd like to ask you is regarding sustainability. Do you factor ESG and sustainability into your stock-picking process?

DEBORAH: I think if you're an emerging markets investor, and you've been doing this for a while, you are always thinking about governance, and you're always thinking about sustainability. If you're going to forecast a company's income statement and balance sheet for some period of time, you want to have some comfort around the visibility on those numbers.

And if you think about issues related to sustainability, whether it be around carbon footprint or around labor practices, you want to have some sense that they're moving in a direction that is constructive for the overall viability and visibility of those numbers.

I just remind people when we're dealing with emerging markets we're dealing with 20 to 30 countries all at various different stages of their economic progress and all with different rules and regulations on their national front. And so, you're trying to be conscious of nuances that might be different one place for another. They're not at the same stage of their development. That's why I say it's important to take these issues into consideration when you're thinking about the longevity and viability of the numbers that you're forecasting. And I toss corporate governance up there with sustainability, equally as important. Because you want to be sure that you are going to be afforded the same rights as a larger investor.

KEVIN: Deborah, thanks so much for your time - and thank you to our listeners for joining us. If you would like more information on the Alger Emerging Markets Strategy, please visit Alger.com.

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