

Refocus on the Good Things in Tech



Dan Chung, who advises the Enterprise Technology Fund through Fred Alger Management, is upbeat on technology companies, especially the ones showing above-average growth during a tough time for the sector. With support from a deep, fundamentally based 25-person research staff, Chung has been able to locate some rising stars for investors, in addition to sticking with familiar names.

Q: After a dismal performance for nearly three years, the Enterprise Technology Fund is up more than 13% for the first quarter of 2003 and ranks in the top 2% in the category. How do you feel about this?

A: It makes me feel very good that after a very tough market for three years, it looks like technology is coming back, and people are making money again. I feel good about that.

Q: I noticed the turnover ratio, based on the latest data, was around 300%. Did you advise the fund to raise some cash or rotate positions?

A: We definitely have not raised cash. We try to keep cash down in single digits as much as possible, which is how we manage the fund. In terms of technology investing in general, this is an aggressive growth area to invest in, and so we take advantage of the volatility in the market and the market has certainly been very volatile to help make money for our clients this year. Sometimes that requires some very nimble maneuvering. We have stocks that are up 100%.

Q: XM Satellite Radio has done better than 100%.

A: That's a good example. We are aggressive managers and we monitor our holdings carefully. We take advantage of that volatility. We have to. And sometimes that does generate higher turnover. We also positioned our fund very differently at the very beginning of

this year and it's working out very well. We did reposition early this year because we do see technology recovering this year, both in terms of the spending and also in terms of the stocks being some of the most interesting growth stories in the next three to five years. We saw a lot of opportunities, obviously, in the big sell off last year to position for renewed growth. Also, XM Satellite Radio has been growing all through the recession. Of course it's very small and it's a new service. But it's a great example of that even in the worst of times; this is a really innovative new company drawing new customers to it. Even in the midst of a lot of worrying about our nation, there is innovation; there is growth. I think if people would focus on the good things that are happening and are always happening, really, in our economy, they would be surprised to see how many things are actually growing very rapidly.

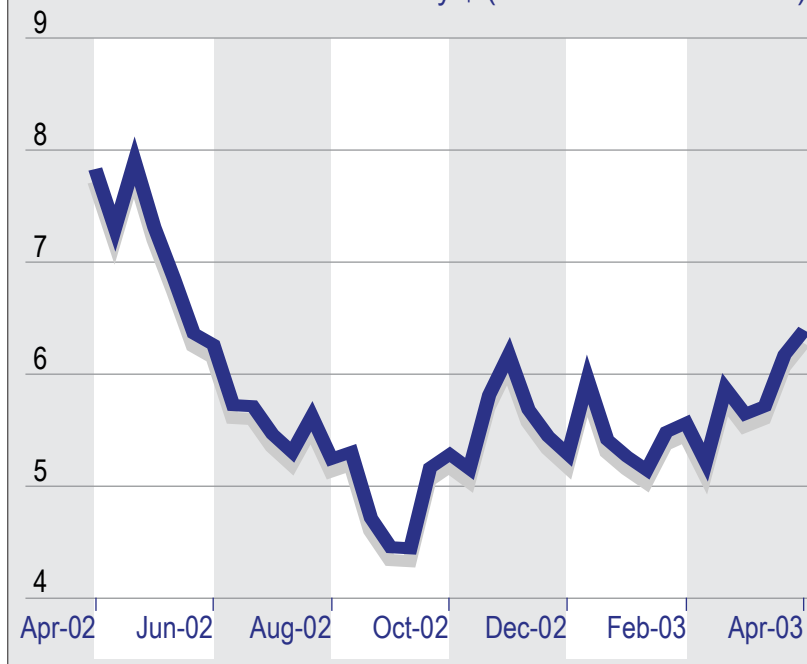
Q: Based on the data I have, Netflix is another example of a company that has grown through the recession.

A: That's right. It offers a brand new service, basically DVD rentals by mail order through the Internet. It's a wonderful company because it really plays into a couple of things. One is the fact that purchasing a DVD is a rather expensive exercise and in the end you really only play most movies once or twice and then you're bored. Second is the fact that sending a DVD through the mail is very inexpensive. Basically it's the cost of a letter. By combining the fact that people like to

Enterprise Technology A		
Fund Facts		
Symbol	EIFAX	
Website	www.enterpriseinvestments.com	
Address	Enterprise Group, 3343 Peach Tree Rd NE, Ste450, Atlanta, GA 30326-1022	
Tel. No.	800-432-4320	
Inception	07/01/99	
Portfolio		
Total Net Assets *	\$21.50	
Avg Mkt Cap (\$ Weighted) *	\$28,500	
Average Price/Earnings Ratio	38.73	
Average Price/Book Ratio	4.04	
Turnover Ratio	322%	
Investment Information		
New Investment	Open	
Min Initial Investment	\$1,000	
Min Subsequent Investment	\$50	
Min Initial IRA Investment	\$250	
Risk (Against S&P 500 - 3 Years)		
Alpha	-1.3589	
Beta	2.3933	
R-Squared	0.7393	
Returns vs. Lipper Sci & Tech Fund Index		
	EIFAX	Index
1 Year (Cum.)	-18.39%	-21.87%
3 Year (Ann.)	-39.14%	-35.33%
5 Year (Ann.)	---	-5.24%
Returns vs. S&P 500		
	EIFAX	Index
1 Year (Cum.)	-18.39%	-13.31%
3 Year (Ann.)	-39.14%	-12.97%
5 Year (Ann.)	---	-2.43%
Fees and Expenses		
Max Sales Charge - Front	4.75%	
Max Sales Charge - Deferred	0.00%	
Max Redemption Fee	2.00%	
Total Expense Ratio	1.90%	
Portfolio Manager		
Multiple Managers	---	
* millions	Data through: 04/30/03	
Source: Company Documents; Lipper		

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Price History \$ (4/30/2002 - 4/30/2003)



watch movies but basically don't necessarily want to buy them, with the low cost to both mail them to you and order them online, they give you a lot of convenience, save you some money, and you can watch a ton of movies for \$20 a month. They were supposed to lose money, according to the consensus estimates. We thought they'd make money. In fact they did; they broke even, which was about ten cents ahead of earnings estimates. We're one of the largest holders. Investors basically abandoned that stock. We started buying it in October because we saw that this was a company growing fast, great service. It's already cash flow positive although it's quite small. We thought it was extremely undervalued when it was around five dollars. People weren't looking very carefully at the balance sheet. The company had about \$100 million in cash.

Q: Aside from new companies, I find that there are traditional companies- eBay, Yahoo! and Amazon.com. What we hear now in the media is they are overvalued.

A: I believe anyone who says that about Amazon - that's the most controversial - I think are very shortsighted. Amazon has basically survived the boom and the bust.

They are the clear winner on the Internet through retailing. The most important thing to remember is that the shift from people buying things in stores to buying things online is still really only in its early stages. The growth for online retailers and particularly for Amazon since it's the leading one, is going to be multiples higher than say, the growth available to your bricks and mortar retailers. Amazon is proving that right now. Amazon's revenue growth in the last quarter was near 30%. I can't name a large retailer who's growing that fast right now in this recession. The reason they're able to grow so fast is the shift. The great thing about Amazon is they're now profitable. The competition is gone. It has branched out beyond books and music. They're selling electronics very successfully. The reason why the stock is not undervalued is not only was the top line growth superior to all other retailers, but we also got to see tremendous leverage on the earnings line because people forget Amazon had a very high-fixed cost just to get even. They had to build the infrastructure of a large company in order to support the kind of business they're doing today. Every extra dollar of sales has a tremendous amount of positive leverage. Earnings are going to grow

very rapidly at Amazon, faster than revenues and I don't see the stock at all as undervalued. The market cap is just under \$10 billion. That is fairly small for a retailer that has a very open-ended market opportunity. I'll give you an example. Kohl's, which is a well-run discount retailer. That's a \$20 billion company. I see no reason why Amazon over the next couple of years doesn't double in market value as well as size. It's true if you're looking for short-term reasons to sell the stock I'm sure people will find that. But I think those people, if they look back three years from now, will find that it was a huge mistake not to buy Amazon, eBay and Yahoo! They are the leaders in their sectors. They've gained positions that can't really be challenged.

Q: Moving on to hardware and software. They are certainly traditional names such as Cisco Systems and Dell Computer. Apparently you have confidence in these companies.

A: Let me give you Intel. People think they don't have a lot of growth ahead of it. We have a very careful analyst here. You should know we're bottoms up investors. For example, we have more than a decade of history following Intel. We have a detailed model that looks at the revenue prospects, the balance sheet. Let me give you the fundamentals first. We do think that PC demand will improve in the next couple of years with the replacement cycle. You can't time it but you know that it will happen. Secondly, Intel does quite well in the server arena. One thing that is very important and positive for Intel is this move to open source software - to Linux. The reason is when you go into a Linux system is you want the free software and you put it on a very inexpensive Intel processor server. This open source software thing is about the best thing possible for Intel. Their server business is growing double-digits right now. The good thing for Intel is the prices they get for server chips is quite a bit higher than for PC chips. They're double, actually. Because we're fundamental analysts we look at all that, but we also look at the valuation for the company. What we think is that when Intel was trading at around \$15, which it was and even little bit below that, Intel generates a lot of free cash flow. Even in the whole semiconductor industry, there are only a few companies that can consistently generate free cash flow. In the end, the ability to generate free cash flow is what matters. That is what enables a company to grow the business or at least make it a good business. The companies

that continually consume cash, that need to borrow or issue stock to keep their business going, those are bad investments. What we've found is in our valuation model is that with Intel's cash flow generation ability that when it gets down to around \$15, you're only paying about a 20 multiple on free cash flow. We think that is very inexpensive for a company that in the end is dominant in its industry, has excellent margins, and has some growth ahead of it. The interesting thing about that valuation model is because we have analysts covering every sector of the

A: Nokia we like because first of all it's had very good financial discipline through the downturn. A very important attribute is leaders tend to be companies that tend to do better in a downturn but they tend to gain market share in the upturns as well. What is important for Nokia is we think their new product launches that they have in the next quarter are going to restart the growth. They are coming out with three significant cell phones. One of them will be a cell phone that combines an FM radio. If you think about it, people are looking to be enter-

camera phones. And I want one pretty badly, actually. I will be one the first to have one.

Q: Based on the conversation, it's obvious that you regularly confer with the research staff.

A: It's important to realize that this is a team effort. I have about 25 people in the research department and about 20 of them are fully dedicated research analysts. Some of our senior analysts have 20-years of experience. They could be portfolio managers in many instances. Just for convenience you

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Dan Chung

Dan Chung is chief investment officer, director of research and portfolio manager of the large cap growth, mid cap growth and balanced funds at Alger Management. Chung left the tax department as an associate lawyer at the firm Simpson Thatcher and Bartlett in New York in 1994 to join Alger. There, he worked his way up through the in-house training and Chartered Financial Analyst program to his current position. A 1984 graduate of Stanford University, Chung earned degrees with distinction in Biology and English. He earned his J.D from Harvard Law School in 1987, graduating magna cum laude.

market, I was studying very carefully with out industrial analyst for what does a 3M trade? What kind of cash flow multiple does a Danaher, an excellent company, which we also own, trade for? What does your average industrial trade for on a free cash flow multiple? Many of those companies trade for 25 or 30 times free cash flow. So, we said to ourselves, lets suppose that Intel has no growth. It's a pure cyclical. Why should Intel, which is much more dominant in its market, and in particular, not only dominant, but getting into the processor market is virtually impossible, why should it trade at a discount to Honeywell or Caterpillar on a free cash flow basis? To us that made no sense, so we bought Intel at \$15. I wish it were there again, because I would buy more. I tell you it's a great investment even today, because it's still not trading at multiple equal to some of these larger companies that don't have nearly the ability to generate free cash flow. A good example of why it's important to do your fundamental analysis, because if you're just looking at the stock price and just chasing price momentum, you're going to go crazy. You will have no anchor of conviction about your stock. I wanted to impress upon you how seriously we take at Fred Alger Management the importance of doing fundamental analysis and to do some serious thinking about the long-term valuations of these companies.

Q: As far as leadership is concerned, Nokia is the undisputed leader in wireless handsets.

tained while they are waiting for a call. I think it's a nice little feature. The second one has a lot of games on it. It sounds very silly, but I have a lot of people tell me that when I'm waiting in line at the movie theater, I play games on my cell phone. Young people, I mean in their 20s, or maybe early 30s, tend to upgrade their phones more frequently than older folks. The third one is the one I'm probably going to be interested in because I think it's the gee-whiz, got to have it kind of product. It's the camera cell phone. Everybody knows that and everybody has been waiting for the really good one. I think that if Nokia gets it right, it's going to be a homerun. It's a pretty attractive looking device, I think. We'll have to see how it goes. A picture says a thousand words. What you're really seeing is that Nokia is recognizing that different people like to use their cell phones in different ways. They are giving the consumer options. What you are going to see is people sending pictures everywhere on one of these little

talk to me, but you really should talk to them if you really want the nuts and bolts.

Q: You sound very upbeat about technology in general.

A: I am very upbeat because I think after the panic selling last year and fears about the Iraq war and the economy, what we're seeing now is investors are refocusing on fundamentals-what's growing; what's doing well. I think that as people refocus on the good things that are happening both in the industry and in our country, they are going to realize that we live in the greatest country on earth. We have in technology one of the greatest and most innovative industries in the world. Many of the leading companies globally are American companies. Technology is still basically the fuel for the fire, the fuel for economic growth, the fuel for increased productivity. Investors will come back to technology stocks and I think we're seeing the beginning of that. ■

Dave Jennings