



# KayneCast

A Podcast Series by Kayne Anderson Rudnick



## Episode 75

### Fourth Quarter 2018 Review of the International Small Cap Portfolio

Craig Thrasher, CFA

Portfolio Manager & Senior Research Analyst

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Jordan: Hello, this is Jordan Greenhouse, Client Portfolio Manager with Kayne Anderson Rudnick and with me today I have Craig Thrasher, Senior Portfolio Manager of the Virtus KAR International Small Cap portfolio. Craig, first and foremost, thank you for setting aside the time today to review this with us. During the fourth quarter of 2018 we noticed a substantial uptick in overall volatility in the equity marketplace. Can you provide us with performance within the portfolio for the quarter, as well as year to date?

Craig: Yeah. Well, obviously 2018, and specifically the fourth quarter was a tough one for equity markets globally across the board. For the fourth quarter, our portfolio was down 10.5% and for the benchmark, which is the MSCI® ACWI ex. U.S. Small Cap, that was down 14.4% in the fourth quarter alone. For the year the portfolio was down 6.8% and the benchmark again, MSCI® ACWI ex. U.S. Small Cap, was down 18.2%, 2018. So as I said it was definitely a tough market across the board.

Jordan: What were some of the key attributors to the portfolio and can you walk us through an example or two of these names?

Craig: Yeah. In the fourth quarter of 2018, when you saw markets declining pretty precipitously, a lot of that was driven by economic growth fears and when that happens, things with less economic sensitivity tend to outperform and in our portfolio, companies like Saber Insurance, which is an insurance company in the U.K. and Heineken Malaysia, which is the largest beer company in Malaysia, those are areas that tend to have less economic sensitivity. So they held up better in this downturn, so they were some of the outperformers for us in the fourth quarter. Another one of our top contributors was Scout 24, which is the largest online property portal in Germany and that company, there was a report in the Financial Times that the company may be sold to private equity, so something like that is obviously going to boost the shares as well. So those are some of the areas that outperformed for us in the fourth quarter.

Jordan: Can you also walk us through an example of a portfolio detractor during the fourth quarter of 2018?

Craig: Yeah. One of our largest detractors in the fourth quarter was a company called SINA, which is a Chinese company whose largest asset, by far, is their controlling stake in the large social media platform, Weibo, which is one of the largest social media platforms in China and obviously in fourth quarter and throughout 2018, with the increasing escalation of the trade rhetoric and fears about a trade war and resulting negative impact on the Chinese economy, a lot of companies that are either in China or have exposure to China have been particularly



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hard hit and SINA was definitely an example of that where the shares suffered due to that negative sentiment around China.

Jordan: Has the recent market volatility provided you with any opportunities to add new investments to the portfolio over the last few quarters and can you provide an example of some of the new names you've added?

Craig: Yeah. We've added a number of names over the last few quarters and actually, SINA, which I just alluded to was one of the companies that we've purchased, actually earlier this year. Another company that we purchased in the fourth quarter as the shares came under pressure was a company called CTS Eventim, listed in Germany. And CTS is the largest ticketing company in Europe. You can think about it as the "Ticketmaster", basically of Europe and it has a lot of the characteristics that we look for in a business in terms of really high market share, high profitability, great balance sheet and it's a company that we've followed for actually a number of years and we've talked to the company a number of times, but have never invested, but the downturn of the market in the fourth quarter allowed us to buy the stock at a valuation that we haven't seen for at least the last 5 years, so we were able to take advantage of that downturn in the market to pick up for what we think is a great company at a good price.

Jordan: Craig, last question I have for you is we're approaching 10 years into this bull market cycle. When looking at your portfolio and Kayne's approach, are there any factors that you're most focused on moving forward?

Craig: Well, I'd say really at Kayne, regardless of the market environment, we're always focused, really on the same thing. We're trying to find great businesses at attractive valuation. So, the number one thing that we're always focused on is the quality of the businesses and the predictability of the businesses that we're buying in. I would say regardless of whether we are in a bear or a bull market, that's going to be our number one focus.