



# KayneCast

A Podcast Series by Kayne Anderson Rudnick



## Episode 78

### First Quarter 2019 Review of the Mid Cap Core Portfolio

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Intro: Hello, you're listening to KayneCast, a podcast that provides commentary on the economy and financial markets every quarter by the Kayne Anderson Rudnick investment management team.

Jordan: Hello this is Jordan Greenhouse, Managing Director, Kayne Anderson Rudnick. With me today I have Jon Christensen, Senior Portfolio Manager of the Kanye Anderson Mid Cap Core Portfolio and today we're going to discuss the first quarter of 2019 review and outlook as well.

Jon: Hey Jordan. Happy to be here.

Jordan: Jon, thank you again for taking the time to participate in this podcast. We've seen quite a reversal of the broader markets to start 2019. Can you walk us through the performance of the Mid Cap Core portfolio looking back at the 1st quarter of 2019 and also related and reference the index performance as well?

Jon: Sure, after a very tough performance in Q4 of 2018, where the Russell Mid Cap® Index was down over 15%, we had quite a bounce back in the market for Q1 2019. The Russell Mid Cap® was up 16.5% in Q1, with January and February making up most of the gains. Overall a very strong market. We trailed by about 250 bps in the quarter.

Jordan: When we start to take a deeper dive in the Mid Cap Core Portfolio, looking back at the first quarter what were some of the key contributors to the strategy?

Jon: Yeah, so overall, if you looked at the quarter, it was a very much low quality driven quarter with most of the attributes showing that low quality stocks did better than higher quality stocks, so you would anticipate us having a little bit of a headwind, as it was, going into the quarter and that's indeed why we trailed. But just looking at some of the biggest contributors in terms of the stocks to the portfolio this quarter was Aspen Technology. They're engaged in the provision of mission-critical process optimization software solutions that are designed and manage and optimize plant and process design, operational performances, and supply chain planning. So Aspen continues to report solid growth, which has been accelerated by its new Asset Performance Monitoring suite of products. In addition to accelerating growth, the company continues to deliver strong profitability and free cash flow.

Jordan: On the flip side Jon, for the first quarter what were some of the key detractors during the quarter that you saw?



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Jon: Sure, the biggest detractor from performance this quarter was AMN Healthcare. So AMN Healthcare provides healthcare workforce solutions and staffing solutions at acute and sub-acute care hospitals and other types of healthcare facilities throughout the United States. The company's segments include nurse and allied solutions, locum tenens solutions and other workforce solutions. While the company has had several victories establishing its long-term contracts, it's had some missteps in its locum tenens business. As a result of that, its technology around this offering, it has been hard to execute for some customers, and the revenue has sagged. We view these problems as self-inflicted, not being structural in nature and we expect this segment to recover in the coming year.

Jordan: Jon, my last question is when we look back at Q1 2019, can you explain what impact stock qualities had from a characteristics perspectives, things like the S&P rankings, Debt Levels, along with Beta, had on the overall portfolios performance as well as the broader market's performance?

Jon: Absolutely, as I indicated earlier, the overall market for Mid Caps this quarter was lower quality driven so there's no denying that. Energy and Technology were the leading sectors in the quarter while Consumer Staples and Utilities, which are typically more defensive in nature, lagged. And if you look at it in terms of specific attributes, companies with low S&P stock rankings, high P/Es, high betas, and highly levered companies all did better than their counterparts. So given the strength in the market and the low quality headwinds, the underperformance of the Mid Cap Core makes some sense.

Jordan: Once again, I've been speaking with Jon Christensen, Senior Portfolio Manager of the Mid Cap Core Portfolio and reviewing his thoughts looking back at the first quarter of 2019 as well as outlook. Thank you again Jon for your time and valuable insight you bring to our KayneCast listeners.

Jon: Thank for having me Jordan.