

## MUTUAL FUNDS

# This Hot Fund Manager Sticks To His Strategy Despite Macro Messes Like The China Trade War

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INVESTOR'S BUSINESS DAILY

A slowing U.S. economy or a festering U.S.-China trade war? Neither macro development will keep Federated Kaufmann mutual fund manager John Ettinger from following his usual investment approach.

Nor did a rocky stock market in August knock him off course. The month saw the S&P 500's worst day of the year on Aug. 5 when it plunged 2.98%. The big-cap bogey also jerked up or down more than 1% on 11 of the month's 22 trading days.

Despite August's woes, Ettinger knows overall it's been a successful year, with most diversified stock fund categories up 11% to 22% through Aug. 30.

Whether or not additional volatility follows in the coming weeks and months — the U.S. and China cheered investors on Sept. 5 by announcing an upcoming round of talks that deal with trade tariffs — Ettinger will stay his course.

"We don't try to predict the market," said Ettinger, senior portfolio manager of \$3.4 billion Federated Kaufmann Large Cap Fund<sup>KLCAX</sup>. "We buy companies with highly recurring revenues and market leadership that can weather storms and thrive despite macroeconomic conditions."

### China Trade War With The U.S.

Some of August's daily rebounds prevented the month from turning into a total

meltdown. The S&P 500's total return, including reinvested dividends, finished August down 1.58%. That was pretty bad, but that decline was a mere shadow of record setters like October 1987's nearly 22% crater in the wake of the Black Monday crash.

One key culprit behind the market's miasma last month was President Donald Trump's Aug. 1 announcement of new tariffs on China, fueling investors' fears of a worsening U.S.-China trade war.

A second boogeyman was the Aug. 14 inversion of the yield curve. Yield curve inversion has usually signaled recessions in the past 50 years.

A third contributor to August's roller-coaster ride was the absence of any broad economic lift from the Trump tax cuts — which were enacted in December 2017 and appeared to boost corporate profits in parts of 2018, especially the second quarter.

Investor fears concerning Brexit, the U.K.'s split with the European Union, also contributed to volatility.

### Ongoing Volatility

Ettinger expects ongoing market volatility. "We have choppiness, and we could continue to have waves of volatility in the market because of (the escalating trade war and yield-curve recession signals)," he said.

The fund lost 1.42% in August. That was smaller than the S&P 500's setback. And it left the

fund up 28.31% for the year, far better than the big-cap bogey's 18.34% gain.

### China Trade War Woes

After rising in June and July, the S&P 500 fell in August.

U.S. diversified stock mutual funds followed suit. They slumped 2.74% in August, leaving their year-to-date gain at 15.31%, according to Lipper Inc.

### Familiarity Hones Ettinger's Aim

Ettinger emphasizes that he is a bottom-up investor who buys and sells based on individual company factors. Still, he seeks companies whose gains are as independent as possible from macroeconomic cycles.

"We try to pick companies that can do well in any macro environment," Ettinger said. Federated Kaufmann Large Cap Fund typically tracks stocks it likes through their life cycles, as they move from the fund group's small-cap to its mid-cap and large-cap funds.

When many rival large-cap funds are considering a stock for the first time, Ettinger's portfolio team may already be familiar with it.

"We've been following those names for maybe a decade," he said.

That's because by the time a stock is big enough to be considered for the Large Cap Fund, Ettinger or his colleagues may already have studied it for the fund group's mid-cap \$6.8 billion Federated

Kaufmann Fund<sup>KAUAX</sup> or its \$3.5 billion Federated Kaufmann Small Cap Fund<sup>FKASX</sup>.

Managers of those funds huddle and swap ideas regularly, Ettinger says.

### Stocks With Large Markets

Among other traits Ettinger looks for in stocks he buys are those that "have large addressable markets and sector tailwinds. They are leaders, have recurring revenues and predictable earnings and cash flow that will allow them to outperform over the long term despite near-term macroeconomic and geopolitical volatility," he said.

### IHS' Recurring Revenues

IHS Markit<sup>INFO</sup> illustrates Ettinger's outlook. The U.K.-based company provides a variety of financial data.

Its vehicle records are used by used-car buyers. IHS' geological data aids oil and gas exploration. Its financial data includes interest rates, currency exchange rates, commodities price and equity and fixed income indexes.

Much of IHS' revenue is recurring because its data is a critical part of customers' success. "The company is a mid-single-digit organic grower in the information services space," Ettinger said. "It has subscription revenue and high visibility of revenue. It has great cash flow because it has (little) capital expenditure requirements. It's the sort of company that's

shown it can thrive in almost any market.”

### Verisk Recurring Revenue

Verisk Analytics<sup>VRISK</sup> is another name that Ettinger likes. “We’ve owned it a long time,” he said. “It showed 7% organic growth last quarter.”

Organic growth refers to growth of existing business lines, not including acquisitions. “Organic growth is significant because we invest in growth stocks that should be able to grow their businesses at a nice clip, excluding any acquisitions,” Ettinger said.

Verisk mainly sells data to

property and casualty insurers, and also to energy and financial services firms. Ettinger likes the high visibility of Verisk’s revenue. “Verisk gets the vast majority of its revenue from subscriptions to its information products and long-term agreements,” he said. “These are often prepaid. Subscription revenue is recurring and highly visible, easy to predict. Most customers continue to renew their subscriptions every year. In some cases the subscriptions are multiyear agreements, providing even more revenue visibility and predictability.”

“That’s the type of company

we own,” Ettinger added. “It’s not going to be affected by risk factors” such as an escalating U.S.-China trade war.

### Not Exposed To China Trade

Crown Castle<sup>CCI</sup> is a third stock that illustrates the fund’s approach. Crown Castle is a real estate investment trust (REIT) that owns wireless cell towers in the U.S., Puerto Rico and Australia. It also provides antenna installation and site development services.

“They’re a leading owner of cell towers in the U.S.,” Ettinger said. “Wireless carriers will continue to add capacity and invest

in networks despite any trade war. And they’re seeing leasing activity (of space on towers) that’s the highest it’s been in a decade and is accelerating. It’s driven by rapid growth in mobile data traffic.”

“A company like that is not going to stumble because of a potential slowdown in European economies or a prolonged U.S.-China trade war,” Ettinger added.

He says Crown Castle is a good example of a stock Federated Kaufmann has known forever. It started in the fund group’s small-cap and mid-cap funds, then graduated into the large-cap fund.

For more complete information, visit **FederatedInvestors.com** or contact your investment professional for prospectuses or summary prospectuses. You should consider the fund's investment objectives, risks, charges and expenses carefully before you invest. Information about these and other important subjects is in the fund's summary prospectus or prospectus, which you should read carefully before investing.

Average Annual Total Returns (%) as of 9/30/19							
	1 Year	3 Year	5 Year	10 Year	Since Inception (12/5/07)	Expense Ratio†	
						Before Waivers	After Waivers
<b>Federated Kaufmann Large Cap Fund</b>							
<b>Class A (KLCAX) NAV</b>	<b>8.39</b>	<b>16.12</b>	<b>11.73</b>	<b>14.30</b>	<b>11.05</b>	<b>1.20</b>	<b>1.09</b>
<b>Class A (KLCAX) LOAD</b>	<b>2.42</b>	<b>13.96</b>	<b>10.47</b>	<b>13.65</b>	<b>10.52</b>	<b>1.20</b>	<b>1.09</b>
<b>Class IS (KLCIX) NAV</b>	<b>8.67</b>	<b>16.41</b>	<b>12.01</b>	<b>14.57</b>	<b>11.34</b>	<b>0.93</b>	<b>0.84</b>
<b>Russell 1000® Growth Index</b>	<b>3.71</b>	<b>16.89</b>	<b>13.39</b>	<b>14.94</b>	<b>--</b>	<b>--</b>	<b>--</b>

**Performance data quoted represents past performance which is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Mutual fund performance changes over time and current performance may be lower or higher than what is stated. To view performance current to the most recent month end, and for after-tax returns, contact us or visit [FederatedInvestors.com](http://FederatedInvestors.com).**

**Load returns reflect the maximum sales charge of 5.5% for A Shares.**

**† The fund's expense ratio is from the most recent prospectus. The expense ratio may reflect voluntary fee waivers and/or expense reimbursements determined by the fund's Advisor and its affiliates. The voluntary waivers and/or reimbursements, if applicable, are in effect up to but not including the later of 01/01/2020 or the date of the fund's next effective prospectus.**

**Returns quoted in the article are as of August 28, 2019 and are for Class A shares at NAV.**

**Fund assets quoted in the article are as of June 30, 2019.**

**The holdings, which are referenced in the article, made up the following percentages of Federated Kaufmann Large Cap Fund's portfolio as of 9/30/19: IHS Markit, 2.18%; Verisk Analytics, 1.92%; Crown Castle, 1.40%. The fund is a managed portfolio and holdings are subject to change. Holdings percentages are based on net assets at the close of business on 9/30/19 and may not necessarily reflect adjustments that are routinely made when presenting net assets for formal financial statement purposes. Current and future portfolio holdings are subject to risk.**

Prior to January 2, 2008, the Federated Kaufmann Large Cap Fund's initial seed capital was held as a cash position. In addition, the fund's adviser waived fees and reimbursed expenses. In the absence of these circumstances, performance would have been lower.

There is no guarantee that any investment strategy will be successful.

Mutual funds are subject to risks and fluctuate in value.

International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards.

Small company stocks may be less liquid and subject to greater price volatility than large capitalization stocks.

Investing in initial public offerings (IPOs) involves special risks such as limited liquidity and increased volatility.

The S&P 500 Index is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Investments cannot be made in an index.

The Yield Curve is a graph showing the comparative yields of securities in a particular class according to maturity. Securities on the long end of the yield curve have longer maturities.

Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics. Indexes are unmanaged and cannot be invested in directly.

See the prospectus for other fees and expenses that apply to a continued investment in the fund. Total return may have been lower in the absence of temporary expense waivers or reimbursement.

Views are as of Aug. 28, 2019, and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.



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