

## Small-Mid Cap Quality Value Portfolio

### Second Quarter 2024 | Managed Accounts

#### Portfolio Review

The Small-Mid Cap Quality Value portfolio outperformed the Russell 2500 Value Index in the second quarter. Good stock selection and an overweight in information technology and good stock selection in industrials contributed positively to performance. Poor stock selection in consumer discretionary and an underweight in utilities detracted from performance.

The biggest contributors to performance during the quarter were Teradyne and Lennox International.

- Teradyne experienced better-than-expected results driven by strong growth in memory SoC testing and A&D systems testing, while major end markets such as mobile SoC, automotive, industrial, and automation remained weak. Management raised their outlook driven by increased demand for HBM memory test and AI compute applications. Combined with increased optimism on improving OSAT tester utilization trends, shares outperformed during the quarter.
- Lennox International executed well in the current quarter with revenue and earnings growth driven by strong commercial performance. While 2024 guidance was maintained, management's outlook remains optimistic on pricing gains from the 2025 refrigeration transition and its ability to regain lost share via "self-help" initiatives. More recently, the company announced a joint venture to sell ductless air conditioning products in the U.S. and Canada, a growing market where Lennox is underpenetrated.
- Other top contributors included CACI International, BJ's Wholesale Club, and National Beverage.

The biggest detractors to performance during the quarter were Leslie's and Graco.

- Leslie's faced continued weak consumer spending on big ticket items like pools and hot tubs, while also facing high margin chemical pricing adjustments downward. Calendar 2024 started wet and cool for the first half of the year, negatively impacting demand. Sentiment towards the company's near-term demand was also negatively affected by an industry peer guiding its business results down because of cautious consumer spending and weak demand. These factors caused shares to underperform.
- Graco's underperformance in the quarter was due to declining revenue across all business segments and nearly all regions as general macro-economic conditions provided a softer operating environment for the company.
- Other bottom contributors included Thor Industries, W. R. Berkley, and WD-40 Company.

#### Purchases and Sales

During the quarter, there were no new purchases or complete sales from the portfolio.

#### Outlook

It is always important to remember that no one can predict the macroeconomic environment with any regular accuracy. That is especially true right now. That said, until the Federal Reserve's most recent hiking cycle, the U.S. economy enjoyed 13 years of rates averaging 0.5%. This supported asset prices and made it easier for businesses, regardless of quality, to be successful. While we expect the Federal Reserve to eventually cut interest rates, we do not expect interest rates to return to 0%. Assuming interest rates settle at around 3-4%, that could have a profound impact on how companies operate and how assets are priced. We believe rates at this level may allow for quality companies with low leverage to better differentiate themselves to investors. Competitively advantaged businesses typically are better positioned to weather a more capital constrained environment.

#### Portfolio Highlights

**Style:** Small-Mid Cap  
**Sub-Style:** Value  
**Index:** Russell 2500™ Value  
**Portfolio Inception:** 2008  
**Portfolio Assets:** \$659.5 M\*  
**Portfolio Turnover:** 25%–35%

#### Investment Management Team

Name	Research Start Date
<b>Julie Kutasov</b> Portfolio Manager + Senior Research Analyst	2001
<b>Craig Stone</b> Portfolio Manager + Senior Research Analyst	1990
<b>Todd Beiley, CFA</b> Senior Research Analyst	1999
<b>Julie Biel, CFA</b> Senior Research Analyst	2004
<b>Jon Christensen, CFA</b> Senior Research Analyst	1995
<b>Chris Wright, CFA</b> Senior Research Analyst	2012
<b>Adam Xiao, CFA</b> Senior Research Analyst	2013
<b>Tyler Cantarano</b> Research Analyst	2017
<b>Sean Dixon</b> Research Analyst	2008
<b>Luke Longinotti, CFA</b> ESG Research Analyst	2020
<b>Arthur Su, CFA</b> Research Analyst	2015
<b>Clarissa Ali</b> Associate Research Analyst	2023

#### Top Five Holdings

As of June 30, 2024

Company	Percent of equity (%)
Lennox International	5.4
TransUnion	4.4
Broadridge Financial Solutions	4.4
LPL Financial Holdings	4.3
CACI International	4.3
<b>Total</b>	<b>22.8</b>

\*Figures in USD

This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation to purchase securities. Holdings are subject to change. Holdings and weightings are based on a representative portfolio. Individual Investors' holdings may differ slightly. Data is obtained by FactSet Research Systems and is assumed to be reliable. *Past performance is no guarantee of future results.*

## Investment Process: Discovering Quality

Development of KAR High-Quality Universe	Proprietary Fundamental Research	Portfolio Construction	Sell Discipline
<p><b>Quantitative Screens</b></p> <ul style="list-style-type: none"> <li>High return on capital over a full economic cycle</li> <li>Long and resilient earnings history</li> <li>High return on net operating assets</li> <li>Minimal debt</li> </ul> <p><b>Other Resources</b></p> <ul style="list-style-type: none"> <li>Research on existing portfolio holdings</li> <li>Meetings with companies</li> <li>Industry reviews</li> <li>Investment conferences</li> <li>Third-party research</li> </ul>	<p><b>Qualitative Analysis</b></p> <ul style="list-style-type: none"> <li>Evaluate sustainability of business model and assess management's ability to direct capital where it can create further control of its market</li> </ul> <p><b>Financial Analysis</b></p> <ul style="list-style-type: none"> <li>Evaluate basis for profitability, long-term growth potential, and ability to allocate capital appropriately</li> </ul> <p><b>Valuation Analysis</b></p> <ul style="list-style-type: none"> <li>Determine the current and potential value of the business</li> </ul>	<p><b>Position Weights</b></p> <ul style="list-style-type: none"> <li>Maximum initial position size is 5% (at cost)</li> <li>Maximum position size is 10% (at market)</li> </ul> <p><b>Sector Tolerances</b></p> <ul style="list-style-type: none"> <li>Seek broad diversification, but no sector constraints</li> </ul> <p><b>Non-U.S. Holdings</b></p> <ul style="list-style-type: none"> <li>Up to 20%</li> </ul> <p><b>Holding Period</b></p> <ul style="list-style-type: none"> <li>Typically 3-to-5 years, but is often longer</li> <li>Portfolio turnover is typically 25% to 35%</li> </ul> <p><b>Cash Levels</b></p> <ul style="list-style-type: none"> <li>Typically will not exceed 10% once a portfolio is fully invested; review by CIO triggered if over 10%</li> </ul>	<p><b>Extended Valuation</b></p> <p><b>Portfolio Upgrade</b></p> <p><b>Acquisition Activity</b></p> <p><b>Negative Company or Industry Changes</b></p>

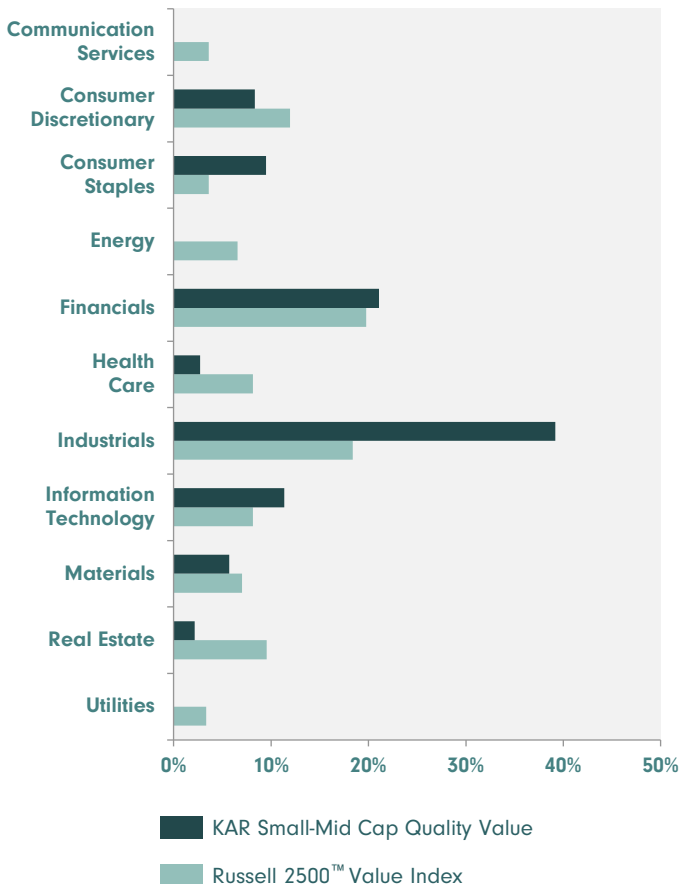
Seeking Higher Quality

Seeking Stronger, More Consistent Growth

Seeking Better Value

## Sector Diversification

As of June 30, 2024



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## Portfolio Characteristics

As of June 30, 2024

	KAR Small-Mid Cap Quality Value	Russell 2500 Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	23.6%	12.5%
Debt/EBITDA*	1.4 x	2.6 x
Earnings Variability—Past 10 Years	34.3%	77.0%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	7.1%	11.9%
Earnings Per Share Growth—Past 10 Years	12.6%	9.4%
Dividend Per Share Growth—Past 5 Years	9.2%	7.0%
Dividend Per Share Growth—Past 10 Years	11.9%	7.2%
Capital Generation—{ROE x (1-Payout)}	17.0%	9.2%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	32.1 x	23.7 x
Dividend Yield	1.0%	1.9%
Free Cash Flow Yield†	4.6%	4.6%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$10.2 B	\$6.8 B
Largest Market Cap—3-Year Avg.	\$31.2 B	\$25.9 B
Annualized Standard Deviation—Since Inception‡	17.9%	20.2%

\*KAR utilizes the interquartile method when calculating Debt/EBITDA. The interquartile method excludes outliers from an aggregate statistic such as weighted average. The interquartile method does not assume that data from the top or bottom of the distribution are outliers—only the extreme ends are excluded—and that it can be applied consistently as a quantitative method for most fundamental characteristics. Debt/EBITDA utilizes net debt for the calculation.

†Free cash flow data is as of March 31, 2024. Prices are as of June 30, 2024. Excludes financials.

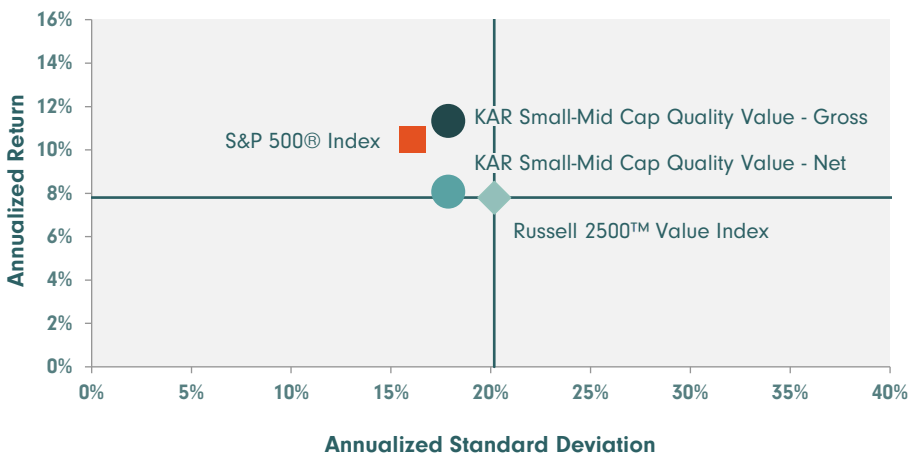
‡January 1, 2008. Standard deviation for the KAR strategy is based on net-of-fee returns. This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. **Past performance is no guarantee of future results.** Returns could be reduced, or losses incurred, due to currency fluctuations.

# Small-Mid Cap Quality Value Portfolio

## Second Quarter 2024 | Managed Accounts

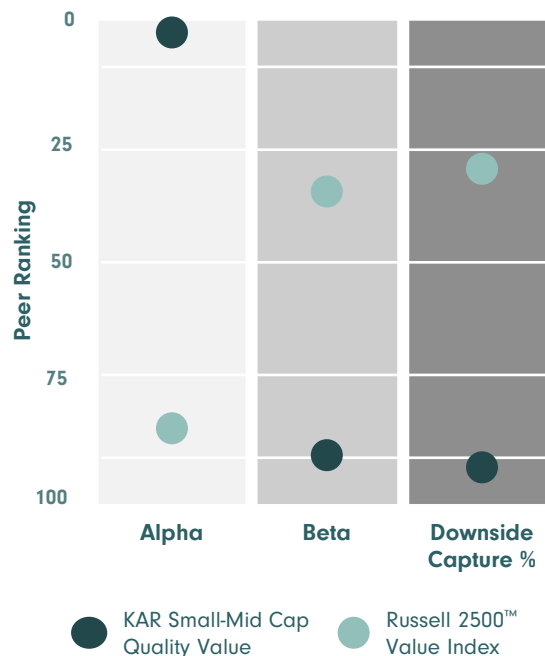
### Risk-Return Analysis

Inception\* to June 30, 2024



### Peer Comparison Chart

Inception\* to June 30, 2024



### Historical Returns

	KAR Small-Mid Cap Quality Value (gross)	KAR Small-Mid Cap Quality Value (net) <sup>†</sup>	Russell 2500™ Value Index
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#### Annualized Returns (%)<sup>†</sup>

As of June 30, 2024

2 <sup>nd</sup> Quarter	(2.88)	(3.62)	(4.31)
Year to Date	3.71	2.18	1.50
One Year	13.62	10.29	11.24
Three Years	1.16	(1.84)	2.15
Five Years	10.03	6.80	8.01
Seven Years	9.81	6.58	7.02
Ten Years	9.99	6.76	6.77
Inception*	11.35	8.08	7.81

#### Annual Returns (%)

2023	18.24	14.78	15.98
2022	(20.01)	(22.43)	(13.08)
2021	22.18	18.62	27.78
2020	23.53	19.93	4.88
2019	32.48	28.65	23.56
2018	(11.08)	(13.74)	(12.36)
2017	19.17	15.69	10.36
2016	19.40	15.91	25.20
2015	(0.59)	(3.53)	(5.49)
2014	8.88	5.68	7.11
2013	36.30	32.37	33.32
2012	11.01	7.75	19.21
2011	7.40	4.24	(3.36)
2010	25.83	22.18	24.82
2009	32.51	28.67	27.68
2008	(18.99)	(21.44)	(31.99)

### Performance Statistics

Inception\* to June 30, 2024

	KAR Small-Mid Cap Quality Value (gross)	KAR Small-Mid Cap Quality Value (net)	Russell 2500™ Value Index
Alpha	4.25	1.18	0.00
Sharpe Ratio	0.58	0.39	0.33
Information Ratio	0.53	0.04	N/A
Beta	0.84	0.84	1.00
Downside Capture	77.00	82.00	100.00
Tracking Error	6.64	6.64	N/A

**IMPORTANT RISK CONSIDERATIONS: Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small, medium, or large-sized companies may enhance that risk. **Limited Number of Investments:** Because the portfolio has a limited number of securities, it may be more susceptible to factors adversely affecting its securities than a portfolio with a greater number of securities. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended.

\*January 1, 2008

<sup>†</sup>All periods less than one year are total returns and are not annualized. Returns are final.

<sup>‡</sup>Net of all fees and expenses. Assumes a 3% annual fee.

This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Returns of the Kayne Anderson Rudnick composite are final. For further details on the composite, please see the disclosure statement in this presentation. Data is obtained from FactSet Research Systems and is assumed to be reliable. **Past performance is no guarantee of future results.** Returns could be reduced, or losses incurred, due to currency fluctuations.

# Small-Mid Cap Quality Value (Wrap) Composite

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## Disclosure

Year	Composite Pure Gross Return* (%)	Composite Net Return (%)	Russell 2500™ Value Index Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Number of Accounts	Internal Dispersion (%)	Composite Assets (\$ Millions)	Firm Assets (\$ Millions)
2014	8.88	5.68	7.11	10.65	11.41	12	0.09	140	7,989
2015	(0.59)	(3.53)	(5.49)	12.26	12.19	< 5	N/A	< 1	8,095
2016	19.40	15.91	25.20	12.26	13.36	< 5	N/A	< 1	9,989
2017	19.17	15.69	10.36	10.95	11.98	< 5	N/A	< 1	14,609
2018	(11.08)	(13.74)	(12.36)	12.82	13.77	< 5	N/A	< 1	17,840
2019	32.48	28.65	23.56	13.58	14.43	< 5	N/A	< 1	25,685
2020	23.53	19.93	4.88	21.90	25.40	20	N/A	143	39,582
2021	22.18	18.62	27.78	20.14	24.49	74	0.15	232	47,269
2022	(20.01)	(22.43)	(13.08)	23.21	26.84	< 5	N/A	< 1	33,531
2023	18.24	14.78	15.98	19.44	20.99	< 5	N/A	< 1	41,186

\*Pure gross returns are supplemental to net returns.

The Russell 2500™ Value Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.

KAR (as defined below) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. KAR has been independently verified for the period from January 1, 1999 through December 31, 2023. The verification reports are available upon request.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

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exclusively on securities the firm defines as high quality.

The composite includes all fully discretionary Small-Mid Cap Quality Value Wrap Portfolios. Small-Mid Cap Quality Value Wrap Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2500™ Value Index, that have market control, rising free cash flow, shareholder-oriented management, strong consistent profit growth and low debt balance sheets. For comparison purposes, the composite is measured against the Russell 2500™ Value Index. The Russell 2500™ Value Index is a market capitalization-weighted index of value-oriented stocks of the 2,500 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total-return basis with dividends reinvested. Benchmark returns are not covered by the report of the independent verifiers. The inception date of the composite is January 2008. The composite was created in July 2015. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The firm's list of composite descriptions, list of broad distribution pooled fund and the list of limited distribution pooled funds descriptions are available upon request.

For periods prior to July 1, 2015, and from October 1, 2020 through June 30, 2022, the composite calculations have been linked to the firm's Small-Mid

Cap Quality Value actual historical non-wrap fee composite performance. All portfolios included in this composite for all other periods are wrap portfolios.

The standard wrap fee schedule in effect is 3.00% on total assets. Actual management fees charged may vary depending on applicable fee schedules and portfolio size, among other things. Additional information may be found in Part 2A of Form ADV, which is available on request. The performance information is supplied for reference. Past performance is no guarantee of future results. Results will vary among accounts. The U.S. dollar is the currency used to express performance. Performance results include the reinvestment of all income. Pure gross returns do not reflect the deduction of any expenses, including trading costs. Net annual returns are calculated by deducting 1/12th of an assumed maximum annual wrap fee of 3% on a monthly basis. Wrap fees include all charges for trading costs, portfolio management, custody and other administrative expenses.

Internal dispersion is calculated using the asset-weighted standard deviation of annual gross returns for accounts in the composite for the entire year. For those years when less than five accounts were included for the full year, no dispersion measure is presented. The three-year annualized ex-post standard deviation measures the variability of the composite (using pure gross returns) and the benchmark for the 36-month period.

## GLOSSARY

**Standard Deviation:** Measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk. **Alpha:** A risk-adjusted measure of an investment's excess return relative to a benchmark. **Sharpe Ratio:** A risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. **Information Ratio:** The information ratio (IR) is a measurement of portfolio returns beyond the returns of a benchmark, usually an index, compared to the volatility of those returns. **Beta:** A quantitative measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. **Downside Capture Ratio:** A statistical measure of an investment manager's overall performance in down-markets. It is used to evaluate how well an investment manager performed relative to an index during periods when that index has dropped.

**Tracking Error:** The divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark. It is reported as a standard deviation percentage difference, which reports the difference between the return an investor receives and that of the benchmark they were attempting to imitate.

## INDEX DEFINITION

The Russell 2000® Index is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.