

# Small-Mid Cap Quality Value Portfolio

## Fourth Quarter 2023 | Managed Accounts

### Portfolio Review

The Small-Mid Cap Quality Value portfolio underperformed the Russell 2500 Value Index in the fourth quarter. Poor stock selection in financials and poor stock selection and an overweight in consumer staples detracted from performance. An underweight in energy and good stock selection and an underweight in health care contributed positively to performance.

The biggest contributors to performance during the quarter were Bank of Hawaii and Lennox International. Bank of Hawaii's shares, like many other regional banks, moved higher in the quarter as investors became more confident that short-term interest rates have likely peaked. Lennox International's shares outperformed during the quarter as the company raised revenue and profit guidance for the year on good execution in commercial and improving dynamics in residential. Additionally, management provided a better-than-expected preliminary outlook for 2024 as the company continues to benefit from a recovery in residential volumes, pent-up demand, and share gains in commercial, as well as pricing related to the 2025 refrigerant changeover. Other top contributors included RBC Bearings, Armstrong World Industries, and Graco.

The biggest detractors to performance during the quarter were TransUnion and LPL Financial. TransUnion's shares underperformed in the quarter as the company provided a disappointing outlook for the remainder of the year due to weaker lending conditions that progressed through the quarter. Additionally, its non-lending related businesses, such as insurance, tenant screening, and Neustar, were softer than expected due to idiosyncratic and macroeconomic pressures. LPL Financial reported a quarter of organic asset growth driven by market share gains, while profit margins were down due to seasonality and expense recognition timing. The company earns a significant portion of its profit from net interest earned on client operational cash balances, and the expectation of lower interest rates negatively influenced expectations for the company's future profit trajectory. This caused the shares to underperform. Other bottom contributors included BJ's Wholesale Club, John Bean Technologies, and The Cheesecake Factory.

### Purchases and Sales

During the quarter, we purchased BJ's Wholesale Club, Kadant, and Zurn Elkay Water Solutions. We sold The Cheesecake Factory. BJ's Wholesale Club engages in the operation of membership warehouse clubs. Its product categories include grocery, household and pet, television and electronics, furniture, computer and tablets, patio and outdoor living, lawn and garden, baby and kids, toys, home, health and beauty, appliances, and jewelry. Kadant is a global supplier of highly engineered products and systems serving industrial process markets. Kadant supplies capital equipment and parts/consumables to customers across three business segments: Industrial Processing, Flow Control, and Material Handling. Zurn Elkay Water Solutions is a leading provider of specification-driven, highly engineered, and mission-critical water management solutions to new construction and retrofit construction projects. The Cheesecake Factory's long-term earnings power continues to be pressured by rising labor costs, particularly with the company's business model being that of providing a diverse made-from-scratch menu offering and high-touch in-person service. With shares having recovered from the pandemic lows, we sold our position.

### Outlook

With the Federal Reserve hiking cycle behind us and corporate earnings growth likely to resume, we believe 2024 should be a favorable year for equity returns. Coming into 2024, investor sentiment is nowhere near as negative as it was coming into 2023 but there is still plenty of cash on the sidelines built up over the last year. As short-term interest rates decline and the yield curve moves to flat, or even positively sloped, we believe this capital will make its way into fixed income and equity markets. From our perspective, returns in 2024 are unlikely to be as robust as 2023 but are likely to generate returns in line with earnings growth. We expect that 2024 will experience more volatility due to the election, which is likely to be contentious.

### 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 Bailey, 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>Sean Dixon</b> Research Analyst	2008
<b>Luke Longinotti</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 December 31, 2023

Company	Percent of equity (%)
W. R. Berkley	4.9
Broadridge Financial Solutions	4.7
Lennox International	4.7
RBC Bearings	4.6
TransUnion	4.2
<b>Total</b>	<b>23.1</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
<b>Quantitative Screens</b> <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> <b>Other Resources</b> <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>	<b>Qualitative Analysis</b> <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> <b>Financial Analysis</b> <ul style="list-style-type: none"> <li>Evaluate basis for profitability, long-term growth potential, and ability to allocate capital appropriately</li> </ul> <b>Valuation Analysis</b> <ul style="list-style-type: none"> <li>Determine the current and potential value of the business</li> </ul>	<b>Position Weights</b> <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> <b>Sector Tolerances</b> <ul style="list-style-type: none"> <li>Seek broad diversification, but no sector constraints</li> </ul> <b>Non-U.S. Holdings</b> <ul style="list-style-type: none"> <li>Up to 20%</li> </ul> <b>Holding Period</b> <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> <b>Cash Levels</b> <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>	<b>Extended Valuation</b> <b>Portfolio Upgrade</b> <b>Acquisition Activity</b> <b>Negative Company or Industry Changes</b>

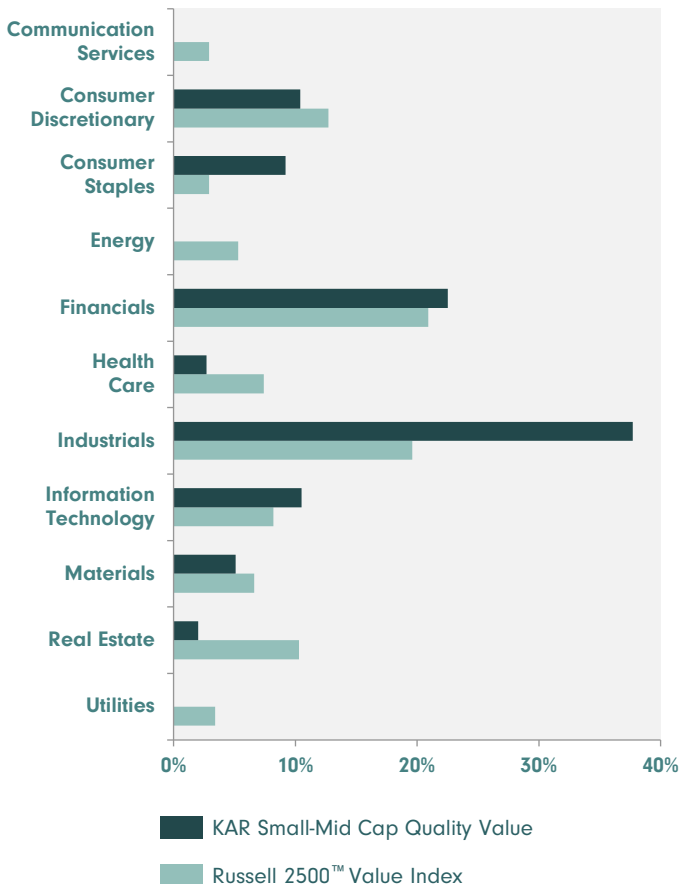
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of December 31, 2023



## Portfolio Characteristics

As of December 31, 2023

	KAR Small-Mid Cap Quality Value	Russell 2500 Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	23.9%	12.6%
Debt/EBITDA*	1.4 x	2.8 x
Earnings Variability—Past 10 Years	36.4%	73.8%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	10.9%	12.4%
Earnings Per Share Growth—Past 10 Years	11.1%	8.9%
Dividend Per Share Growth—Past 5 Years	10.5%	6.5%
Dividend Per Share Growth—Past 10 Years	10.5%	7.0%
Capital Generation—{ROE x (1-Payout)}	17.0%	9.2%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	30.6 x	24.7 x
Dividend Yield	1.1%	1.9%
Free Cash Flow Yield†	3.8%	4.2%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$10.3 B	\$6.7 B
Largest Market Cap—3-Year Avg.	\$33.5 B	\$24.9 B
Annualized Standard Deviation—Since Inception‡	17.9%	20.3%

\*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 September 30, 2023. Prices are as of December 31, 2023. 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.

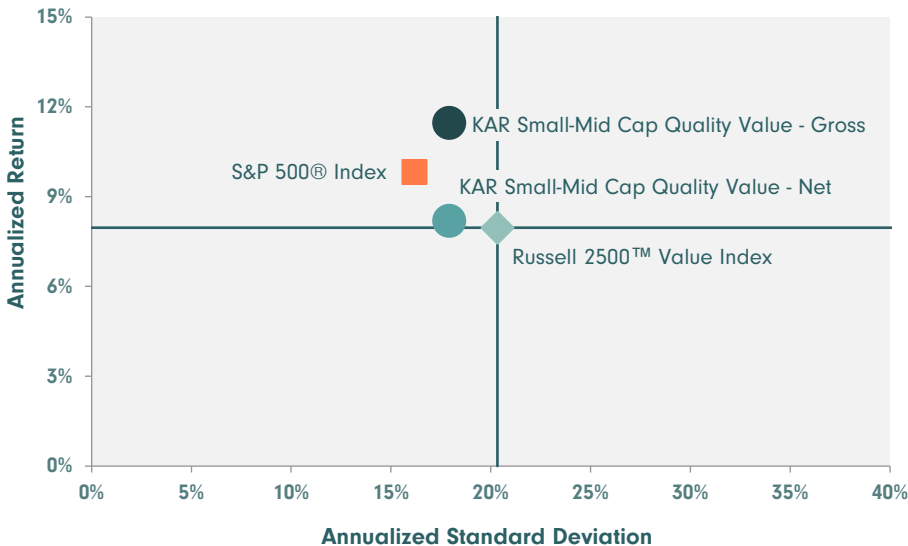
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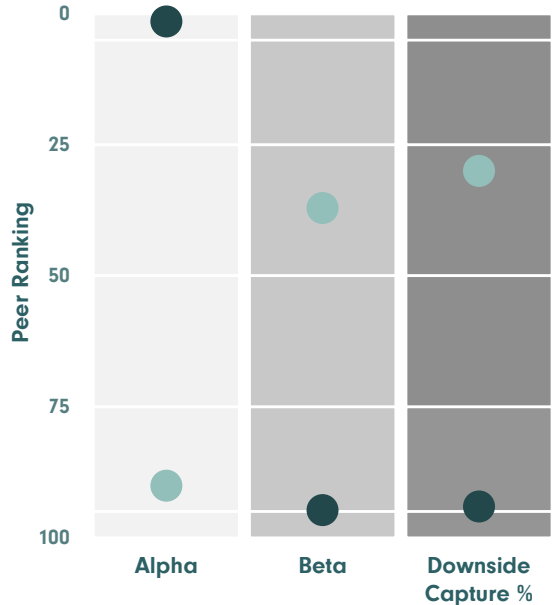
### Risk-Return Analysis

Inception\* to December 31, 2023



### Peer Comparison Chart

Inception\* to December 31, 2023



### Historical Returns

	KAR Small-Mid Cap Quality Value (gross)	KAR Small-Mid Cap Quality Value (net)†	Russell 2500™ Value Index
<b>Annualized Returns (%)†</b>			
As of December 31, 2023			
4th Quarter	12.83	12.01	13.76
One Year	18.24	14.78	15.98
Three Years	4.94	1.84	8.81
Five Years	13.59	10.26	10.79
Seven Years	10.44	7.19	7.08
Ten Years	9.98	6.75	7.42
Inception*	11.47	8.20	7.96

	KAR Small-Mid Cap Quality Value (gross)	KAR Small-Mid Cap Quality Value (net)	Russell 2500™ Value Index
<b>Annual Returns (%)</b>			
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)

● KAR Small-Mid Cap Quality Value ● Russell 2500™ Value Index

The eVestment Small-Mid Cap Value Universe includes 47 managers categorized in the small-mid cap value asset class by eVestment. KAR does not pay any fees to be included in the eVestment Small-Mid Cap Value Universe or for the ranking itself. KAR does pay fees for the use of certain products and services provided by eVestment. eVestment rankings are based on gross of fee returns. Gross of fee returns will be reduced by investment management fees and other expenses that may be incurred in the management of the account. Management fees are described in KAR's Form ADV Part 2A, which is available upon request and can also be found at <https://kayne.com/wp-content/uploads/ADV-Part-2A.pdf>. Returns could be reduced or losses incurred due to currency fluctuations. **Past performance is no guarantee of future results.**

### Performance Statistics

Inception\* to December 31, 2023

	KAR Small-Mid Cap Quality Value (gross)	KAR Small-Mid Cap Quality Value (net)	Russell 2500™ Value Index
Alpha	4.26	1.19	0.00
Sharpe Ratio	0.59	0.41	0.35
Information Ratio	0.53	0.04	N/A
Beta	0.84	0.84	1.00
Downside Capture	76.84	81.78	100.00
Tracking Error	6.59	6.59	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

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

\*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)
2013	36.30	32.37	33.32	12.01	15.29	6	0.13	138	7,841
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	(19.94)	(22.36)	(13.08)	23.17	26.84	73	0.55	259	33,531

\*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, 2022. 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, 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 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.