

Small-Mid Cap Sustainable Growth Portfolio

Fourth Quarter 2019 | Managed Accounts

Portfolio Review

While the Small-Mid Cap Sustainable Growth portfolio delivered positive performance, it underperformed the Russell 2500 Growth Index during the fourth quarter. An underweight and poor stock selection in health care and poor stock selection in producer durables were the main contributors of underperformance. Strong stock selection in technology and consumer discretionary helped mitigate some of the underperformance in the portfolio.

The biggest contributors to performance during the quarter were Paycom Software and Silk Road Medical. Paycom Software reported another very strong quarter of profitability and top-and bottom-line growth. Its expansion into larger customers continues as well as its work to drive employee usage of its software to improve customer loyalty. Silk Road Medical reported another very strong quarter of topline growth, margin expansion and increased number of procedures using its unique TransCatheter Artery Revascularization (TCAR) technology. Additionally, the Journal of the American Medical Association published positive results for Silk Road's unique technology, which should help pave the way for additional adoption of the procedure. Other top contributors included SiteOne Landscape Supply, DocuSign and Rightmove.

The biggest detractors to performance were Interactive Brokers Group and HEICO. At the beginning of October, a competing large electronic broker, Charles Schwab, lowered its commissions for U.S. equity trades to zero following Interactive Brokers creating a zero-commission Lite account offering in late September. As a result, TD-Ameritrade, Fidelity and E*TRADE followed suit by cutting U.S. equity trade commissions to zero. Market participants reacted negatively to the commission cuts and sold off public electronic broker stocks as a group. Despite delivering double-digit sales and operating profit growth in the most recent reported quarter, HEICO saw shares sell off after management delivered conservative guidance below high investor expectations. Other bottom contributors included Verisk Analytics, Grocery Outlet Holding and Jack Henry & Associates.

Purchases and Sales

During the quarter, we had no purchases or sales of securities.

Outlook

On the surface, there appears to be less concerns about the 2020 outlook than there was at the beginning of 2019. The stock market made numerous new highs in December reflecting this outlook. It is no heroic assumption to predict returns in 2020 will not be as good as 2019 despite a reduction in uncertainty. We believe corporate profits should improve in 2020 to the 5% to 10% growth level despite a slowing in overall GDP probably to the 1.0% to 1.5% range. Modest economic growth coupled with better growth overseas could lead to continued improving corporate profitability. The Federal Reserve will probably hold rates steady if this kind of environment unfolds. Election rhetoric will create some volatility in 2020, but it is premature to handicap any outcomes.

Portfolio Highlights

Style: Small-Mid Cap
Sub-Style: Growth
Index: Russell 2500™ Growth
Portfolio Inception: 2018
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	33
Julie Biel, CFA Portfolio Manager + Senior Research Analyst	11
Todd Bailey, CFA Senior Research Analyst	20
Jon Christensen, CFA Senior Research Analyst	24
Julie Kutasov Senior Research Analyst	18
Craig Stone Senior Research Analyst	30
Chris Wright, CFA Senior Research Analyst	7
Sean Dixon Research Analyst	10
Adam Xiao, CFA Research Analyst	4
Jordan Greenhouse Senior Portfolio Specialist	22†
James B. May, CFA Portfolio Specialist	31†

Top Five Holdings

As of December 31, 2019

Company	Percent of equity (%)
Tyler Technologies	4.9
Paycom Software	4.8
MarketAxess Holdings	4.6
Guidewire Software	4.5
DocuSign	4.5
Total	23.2

†Represents years of industry experience.

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. A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. 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. Numbers may not always add up due to rounding. Past performance is no guarantee of future results.

Investment Process: Discovering Quality

Development of High-Quality Universe	Proprietary Fundamental Research	Portfolio Construction	Sell Discipline
200 Stocks Quantitative Screens <ul style="list-style-type: none"> High return on capital over a full economic cycle Long and resilient earnings history High return on net operating assets Minimal debt Other Resources <ul style="list-style-type: none"> Research on existing portfolio holdings Meetings with companies Industry reviews Investment conferences Third-party research 	50–60 Stocks Qualitative Analysis <ul style="list-style-type: none"> Evaluate sustainability of business model and assess management's ability to direct capital where it can create further control of its market Financial Analysis <ul style="list-style-type: none"> Evaluate basis for superior profitability, long-term growth potential, and ability to allocate capital appropriately Valuation Analysis <ul style="list-style-type: none"> Determine the current and potential value of the business 	20–35 Stocks Position Weights <ul style="list-style-type: none"> Maximum initial position size is 5% (at cost) Maximum position size is 10% (at market) Sector Tolerances <ul style="list-style-type: none"> Seek broad diversification, but no sector constraints Non-U.S. Holdings <ul style="list-style-type: none"> Up to 20% Holding Period <ul style="list-style-type: none"> Typically 3-to-5 years, but is often longer Portfolio turnover is typically 25% to 35% Cash Levels <ul style="list-style-type: none"> Typically will not exceed 10% once a portfolio is fully invested; review by CIO triggered if over 10% 	Extended Valuation Portfolio Upgrade Acquisition Activity Negative Company or Industry Changes

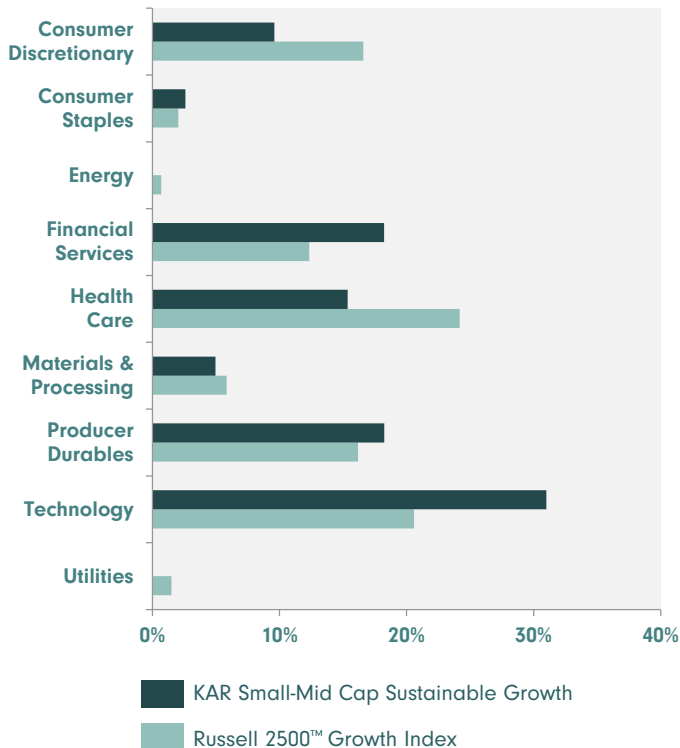
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification

As of December 31, 2019



Portfolio Characteristics

As of December 31, 2019

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
Quality		
Return on Equity—Past 5 Years	17.3%	13.8%
Total Debt/EBITDA	1.9 x	4.2 x
Earnings Variability—Past 10 Years	24.0%	56.3%
Growth		
Earnings Per Share Growth—Past 10 Years	17.1%	12.4%
Capital Generation—{ROE x (1-Payout)}	15.4%	11.5%
Value		
P/E Ratio—Trailing 12 Months	51.4 x	58.8 x
Free Cash Flow Yield*	1.8%	2.0%
Market Characteristics		
\$ Weighted Average Market Cap	\$11.1 B	\$6.0 B
Largest Market Cap	\$24.4 B	\$19.9 B

A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. Holdings and weightings are based on a representative portfolio. Individual Investors' holdings may differ slightly. The sector information represented above is based on Russell sector classifications. Data is obtained by FactSet Research Systems and is assumed to be reliable.

*Free cash flow data is as of September 30, 2019. Prices are as of December 31, 2019. Excludes financials.

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.**