

## Small-Mid Cap Sustainable Growth Portfolio

First Quarter 2022 | Managed Accounts

### Portfolio Review

The start to the year was dominated by headlines coming out of the conflict in Ukraine and increasing fears for inflation and tightening by the Federal Reserve. Large capitalization stocks outperformed small caps once again, with the S&P 500 Index declining 4.60% and the Russell 2000 Index declining 7.53%. The Russell 2500 Index declined 5.82% in the quarter. Growth continued to underperform value with the Russell 2500 Growth Index declining 12.30% and the Russell 2500 Value Index declining 1.50%.

The Small-Mid Cap Sustainable Growth portfolio outperformed the Russell 2500 Growth Index during the quarter. Strong stock selection in health care and strong stock selection and an overweight in industrials contributed positively to performance. An underweight in energy and negative stock selection in consumer discretionary detracted from performance.

The biggest contributors to performance during the quarter were HealthEquity and Jack Henry & Associates.

- HealthEquity reported solid earnings this quarter and we believe it should benefit from the increase in rising interest rates. While the company's recent acquisition was hurt by the pandemic, it has achieved its synergy targets.
- Jack Henry & Associates, which had been a laggard for some time, performed strongly in the most recent quarter after the company reported its highest organic growth rate in over four years and management increased its guidance for the year. From our perspective, it appears that the company continues to take share in many of its business units while generating attractive margins. Given the high switching costs inherent in Jack Henry's services and what we see as the long-term opportunity to continue to grow its business, we remain shareholders of the company.
- Other top contributors included Teledyne Technologies, Fair Isaac, and MediaAlpha.

The biggest detractors from the portfolio were Site One Landscape Supply and Old Dominion Freight Line.

- SiteOne Landscape Supply continues to experience good organic daily sales. Management believes that there will be further margin improvements from scale and other improvements over time. However, despite the solid results, investors rotated away from high performers this quarter and there was a sharper decline among consumer discretionary stocks due to concerns about the state of the economic cycle.
- Old Dominion Freight Line's shares suffered in the most recent quarter as the market appears to have re-evaluated the company's prospects. However, we continue to believe the competitive position of the company remains intact.
- Other bottom contributors included Copperleaf Technologies, Tyler Technologies, and Copart.

### Purchases and Sales

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

### Outlook

The U.S. is in a position of strength economically even creating excess demand currently, but interest rate increases have already affected mortgage rates, car loans, and lease rates here in the U.S. Unless the Fed wants to throw us into a recession (yield curve inversion), the current future shape of the yield curve may prevent as much of an increase in short-term interest rates than what the market is already anticipating. The inflation outlook was particularly cloudy with COVID-19 getting better globally, but the Russian invasion of Ukraine was a clear negative for inflation. Overall, we believe inflation is likely to stay elevated and above the Fed's target for this year at least. However, comparisons of year-over-year inflation do get easier as we move forward. If the trend is headed in the right direction of moderating inflation, the markets may react positively to this development. We will continue to hunt for investment ideas that in our view meet our quality investment philosophy in all sectors of the economy. When inflationary trends begin to moderate, we believe quality companies will become more interesting to investors. Geopolitical risks are clearly still elevated and will continue to be monitored closely.

### Portfolio Highlights

**Style:** Small-Mid Cap  
**Sub-Style:** Growth  
**Index:** Russell 2500™ Growth  
**Portfolio Inception:** 2018  
**Portfolio Assets:** \$528.2 M\*  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	36
<b>Julie Biel, CFA</b> Portfolio Manager + Senior Research Analyst	14
<b>Chris Wright, CFA</b> Portfolio Manager + Senior Research Analyst	10
<b>Todd Beiley, CFA</b> Senior Research Analyst	23
<b>Jon Christensen, CFA</b> Senior Research Analyst	27
<b>Julie Kutasov</b> Senior Research Analyst	21
<b>Craig Stone</b> Senior Research Analyst	33
<b>Sean Dixon</b> Research Analyst	14
<b>Adam Xiao, CFA</b> Research Analyst	9
<b>Jordan Greenhouse</b> Senior Client Portfolio Manager	25†
<b>James B. May, CFA</b> Client Portfolio Manager	34†
<b>Jason Pomatto</b> Client Portfolio Manager	28†

### Top Five Holdings

As of March 31, 2022

Company	Percent of equity (%)
Old Dominion Freight Line	7.1
West Pharmaceutical Services	6.1
Ryan Specialty Group Holdings	4.9
SiteOne Landscape Supply	4.4
HEICO	4.3
<b>Total</b>	<b>26.9</b>

\*Figures in USD.

†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

<b>Development of High-Quality Universe</b>	<b>Proprietary Fundamental Research</b>	<b>Portfolio Construction</b>	<b>Sell Discipline</b>
<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>

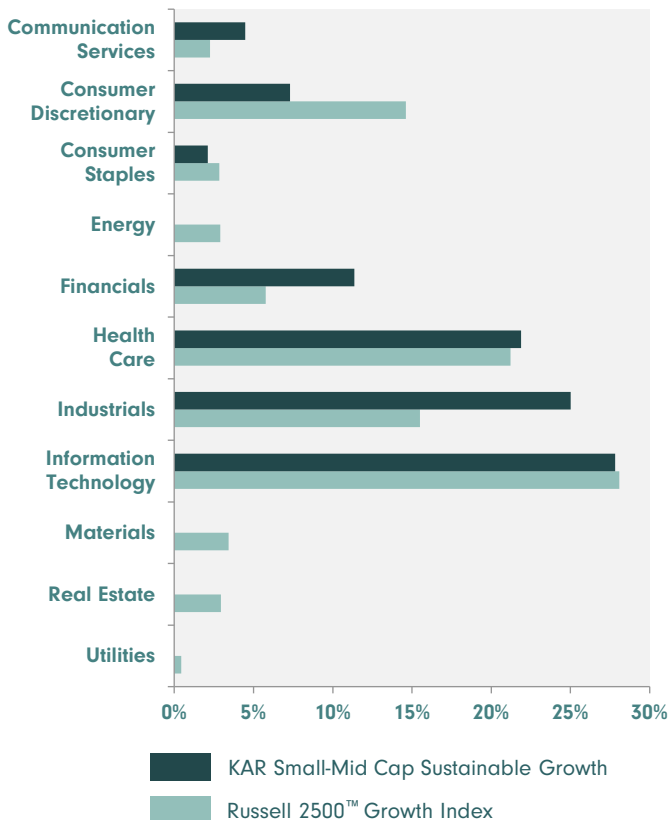
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of March 31, 2022



## Portfolio Characteristics

As of March 31, 2022

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	23.2%	12.6%
Total Debt/EBITDA	4.1 x	3.8 x
Earnings Variability—Past 10 Years	27.5%	73.2%
<b>Growth</b>		
Earnings Per Share Growth—Past 10 Years	16.4%	14.0%
Capital Generation—{ROE x (1-Payout)}	20.8%	10.9%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	62.0 x	71.0 x
Free Cash Flow Yield†	2.0%	1.6%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap.	\$15.2 B	\$7.5 B
Largest Market Cap	\$34.8 B	\$29.4 B

†Free cash flow data is as of December 31, 2021. Prices are as of March 31, 2022. Excludes financials.

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.**

**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 or medium-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:** Local, regional, or global events such as war, acts of terrorism, the speed of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended.

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 GICS sector classifications. Data is obtained by FactSet Research Systems and is assumed to be reliable.