

Small-Mid Cap Sustainable Growth Portfolio

First Quarter 2023 | Managed Accounts

Portfolio Review

The Small-Mid Cap Sustainable Growth portfolio outperformed the Russell 2500 Growth Index during the quarter. Good stock selection in industrials and an underweight in energy contributed positively to performance. Poor stock selection and an overweight in health care and poor stock selection in information technology detracted from performance.

The biggest contributors to performance during the quarter were West Pharmaceutical Services and Duck Creek Technologies. After some operating hiccups in the third quarter, West Pharmaceutical Services reported a solid quarter for year end. The company had been hurt by declining sales from its COVID-related business and it also had to reconfigure equipment for new products. That transition is largely complete and new design wins on the company's highest margin products appear to be sustaining earnings growth. Duck Creek Technologies agreed to be acquired by a private equity firm for a premium to its pre-existing market value, causing shares to perform strongly during the quarter. Other top contributors included Market Access Holdings, Copart, and Fair Isaac.

The biggest detractors from the portfolio during the quarter were Silk Road Medical and Jack Henry and Associates. Silk Road Medical reported a decent fourth quarter as it is seeing improved doctor demand now that it has achieved approval for standard risk patients as opposed to just high-risk patients. The company is also continuing to spend on sales and marketing to improve adoption among trained physicians. Management has noted that penetration is still low, but doctors are adopting once they see the better outcomes with a less invasive surgery. Despite these developments, investors were perhaps disappointed in a slightly lower growth rate and the shares underperformed. In the most recent quarter, Jack Henry & Associates lowered guidance for the full-year due to cyclical issues, which sent the share price lower. The recent turmoil in the regional banking market, which is a key customer segment of the company, also hurt the share price as investors became concerned that smaller banks could face long-lasting profitability headwinds. Other bottom contributors included Globus Medical, Azenta, and Clearwater Analytics.

Purchases and Sales

During the quarter, we purchased Saia and we sold our position in Globus Medical. Saia operates as a transportation holding company. The firm, through its wholly-owned subsidiaries, provides regional and interregional less-than-truckload services through a single integrated organization. From our perspective the company benefits from network density, which it continues to invest in to further distance itself from smaller, unionized competitors. In our view, the company's efforts to improve its reputation have enabled it to implement price increases well ahead of inflation and improve profitability. We believe Saia's efforts to improve service levels will allow it to grow more quickly than the market and further close the pricing gap relative to peers. Globus Medical announced during the first quarter that it was acquiring a peer company that is materially less profitable than Globus. We view this other company as more of a sales and marketing driven organization rather than Globus's focus on product innovation. We believe the synergies were not well-thought out and that this was an acquisition for scale rather than strategic fit. We exited the position fearing challenges to integrate the two businesses.

Outlook

Perceived safe havens and quality stocks performed well in the first quarter as investors have continued to grapple with high uncertainty in the market outlook. We came into 2023 with clear consensus among investors that the year would bring at least a mild recession. January data was stronger than expected and the market quickly priced in a "no landing" scenario. February data was somewhat weaker, and the market started to price in a "soft landing" outcome. Then a regional bank crisis emerged, and the market started to price in a "hard landing" scenario. Fortunately, banking fears started to dissipate the last two weeks of the quarter. Multiple cross currents in interest rates, inflation, economic growth, and investor sentiment have made for a difficult forecasting environment for investors. While the short-term outlook is somewhat murky, we believe that the long-term outlook should be attractive. Cash is piling up on the sidelines, investors are generally negative, speculation is absent from equities (IPOs, SPACs, and memes are dormant), and businesses are very cautious in hiring and expansion plans. Historically, these types of conditions have led to meaningful long-term investing outcomes, although it will remain to be seen how markets will respond for the remainder of 2023.

Portfolio Highlights

Style: Small-Mid Cap
Sub-Style: Growth
Index: Russell 2500™ Growth
Portfolio Inception: 2018
Portfolio Assets: \$488.9 M*
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	37
Julie Biel, CFA Portfolio Manager + Senior Research Analyst	15
Chris Wright, CFA Portfolio Manager + Senior Research Analyst	11
Todd Beiley, CFA Senior Research Analyst	24
Jon Christensen, CFA Senior Research Analyst	28
Julie Kutasov Senior Research Analyst	22
Craig Stone Senior Research Analyst	34
Sean Dixon Research Analyst	15
Arthur Su, CFA Research Analyst	8
Adam Xiao, CFA Research Analyst	10
Jordan Greenhouse Senior Client Portfolio Manager	26†
James B. May, CFA Client Portfolio Manager	35†
Jason Pomatto Client Portfolio Manager	29†

Top Five Holdings

As of March 31, 2023

Company	Percent of equity (%)
Ryan Specialty	6.1
West Pharmaceutical Services	6.1
Copart	5.9
HEICO	5.4
Fair Isaac	5.0
Total	28.4

*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. 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 KAR High-Quality Universe	Proprietary Fundamental Research	Portfolio Construction	Sell Discipline
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 	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 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 	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

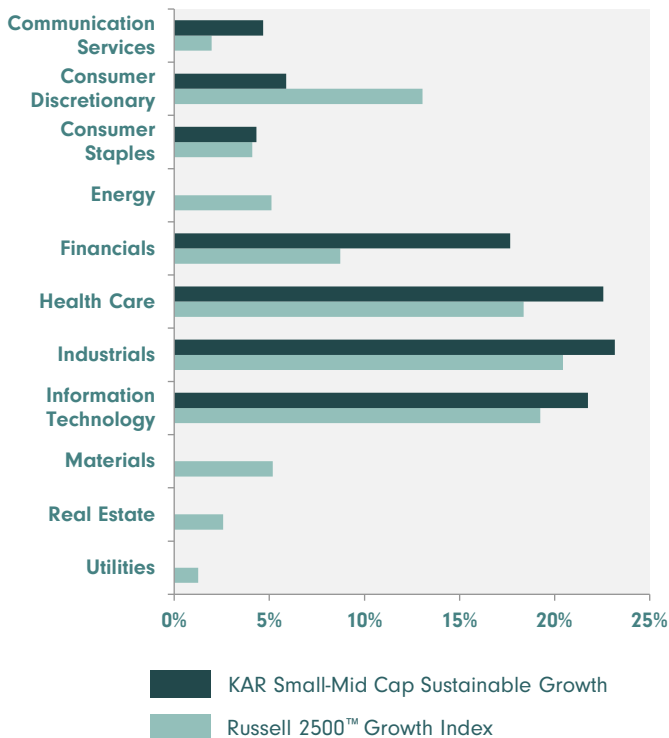
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification

As of March 31, 2023



Portfolio Characteristics

As of March 31, 2023

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
Quality		
Return on Equity—Past 5 Years	22.7%	16.0%
Total Debt/EBITDA*	1.7 x	1.7 x
Earnings Variability—Past 10 Years	33.6%	74.2%
Growth		
Earnings Per Share Growth—Past 10 Years	15.7%	13.7%
Capital Generation—{ROE x (1-Payout)}	19.2%	13.7%
Value		
P/E Ratio—Trailing 12 Months	68.5 x	37.5 x
Free Cash Flow Yield†	1.3%	2.6%
Market Characteristics		
\$ Weighted Average Market Cap.	\$13.9 B	\$6.2 B
Largest Market Cap	\$35.7 B	\$23.9 B

*KAR utilizes the interquartile method when calculating TD/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.

†Free cash flow data is as of December 31, 2022. Prices are as of March 31, 2023. 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.**

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.

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:** 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. Price changes may be short- or long-term. Local, regional, or global events such as war or military conflict (e.g., Russia's invasion of Ukraine), acts of terrorism, the spread of infectious illness (e.g., COVID-19 pandemic) 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's manager(s) to invest the portfolio's assets as intended.