

Small-Mid Cap Growth Portfolio

First Quarter 2024 | Managed Accounts

Portfolio Review

The Small-Mid Cap Growth portfolio underperformed the Russell 2500 Growth Index in the first quarter. Poor stock selection in information technology and financials detracted the most from performance. Positive stock selection in health care and an underweight in materials contributed positively to performance. It is also worth noting that higher beta stocks tended to have better performance this quarter, most notably technology names. The portfolio's lower exposure to companies with higher beta detracted from performance during the period.

The biggest contributors to performance during the quarter were Ryan Specialty and Saia. Ryan Specialty experienced increasing policy flow into the excess and surplus portion of the property and casualty insurance market as underwriters sought more flexibility with setting rates and policy terms. Saia reported better-than-expected operating results and positive commentary about increases in shipment volumes and margin improvement in the coming year. The recent bankruptcy of a competitor also was a positive catalyst. Other top contributors included HealthEquity, West Pharmaceutical Services, and Fair Isaac.

The biggest detractors to performance during the quarter were MarketAxess Holdings and Clearwater Analytics. During the calendar quarter, MarketAxess experienced headwinds including low credit volatility, liquidity, and an inverted yield curve, all of which affected the company's daily volumes and fee per transactions. A trading protocol, pioneered by a competitor, continued to win market share from MarketAxess's trading protocols. These issues resulted in the shares underperforming. We sold our position during the quarter. Clearwater Analytics reported a good quarter of bookings, revenue growth, and profit growth. However, the shares declined due to management providing guidance for growth below market expectations, as well as an additional secondary offering by the company's private equity holders reducing their ownership. Other bottom contributors included FactSet Research Systems, Azena, and Teledyne Technologies.

Purchases and Sales

During the quarter, we purchased Advanced Drainage Systems, and we sold Cooper Companies and MarketAxess Holdings (described above). Advanced Drainage Systems is one of the largest manufacturers of HDPE pipe products used in large scale infrastructure projects. It is also the leader in modern septic tanks. With an entrenched position among the largest distributors and a robust engineering-focused salesforce, we believe the company often benefits from being spec'd in on design drawings and approvals. As we see it, the company leverages its scale in manufacturing and transportation to effectively compete against smaller local players, which results in better overall profitability. We sold our position in Cooper Companies because of a stretched valuation and concerns that pricing may be weakening while the company is investing in new capacity. While we still view Cooper as a quality business, its relatively large market capitalization, valuation, and debt levels led us to the sale of our position.

Outlook

One large challenge coming out of the pandemic is trying to parse the underlying strength in the economy. Our supply chains were whipsawed, our employment patterns changed dramatically, and we saw unprecedented monetary and fiscal support. Given these factors, it is hard to gauge how much of the strength in the U.S. economy is due to fundamentals versus other exogenous effects. And while interest rates have increased materially in a short period of time, they are only modestly restrictive compared to the long-run average. As a result of low rates and strong government support during the pandemic, we believe the tide lifted all companies and made it easier for everyone to prosper. However, without this assistance, we expect that more fundamental factors will drive corporate profits and thus equity performance going forward. Assuming less exogenous support, we expect companies who are competitively advantaged with better profitability, cash flow, as well as lower leverage to be able to better distinguish themselves going forward.

Portfolio Highlights

Style: Small-Mid Cap
Sub-Style: Growth
Index: Russell 2500™ Growth
Portfolio Inception: 2018
Portfolio Assets: \$621.6 M*
Portfolio Turnover: 25%–35%

Investment Management Team

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

Top Five Holdings

As of March 31, 2024

Company	Percent of equity (%)
Ryan Specialty	5.9
Fair Isaac	5.7
West Pharmaceutical Services	5.5
Saia	5.0
HEICO	4.9
Total	27.0

*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. 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

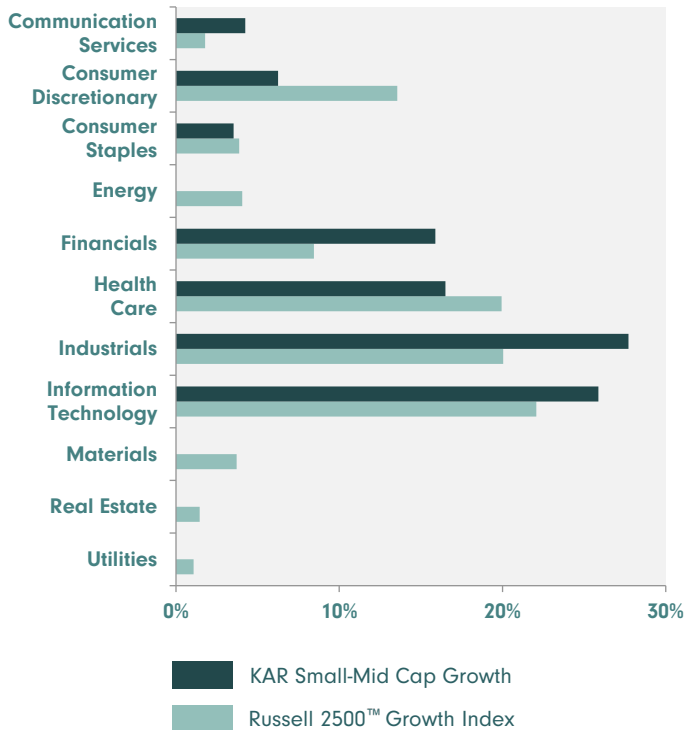
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification

As of March 31, 2024



Portfolio Characteristics

As of March 31, 2024

	KAR Small-Mid Cap Growth	Russell 2500™ Growth Index
Quality		
Return on Equity—Past 5 Years	18.9%	15.3%
Debt/EBITDA*	1.4 x	1.4 x
Earnings Variability—Past 10 Years	40.9%	73.7%
Growth		
Earnings Per Share Growth—Past 10 Years	11.7%	14.5%
Capital Generation—{ROE x (1-Payout)}	15.9%	13.6%
Value		
P/E Ratio—Trailing 12 Months	68.9 x	55.2 x
Free Cash Flow Yield†	1.9%	2.4%
Market Characteristics		
\$ Weighted Average Market Cap.	\$14.2 B	\$8.9 B
Largest Market Cap	\$34.1 B	\$58.4 B

*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 December 31, 2023. Prices are as of March 31, 2024. 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, 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.