

Small-Mid Cap Sustainable Growth Portfolio

Second Quarter 2020 | Managed Accounts

Portfolio Review

The Small-Mid Cap Sustainable Growth portfolio outperformed the Russell 2500 Growth Index in the second quarter. Stock selection was the primary driver of the outperformance although sector allocation also contributed modestly. Stock selection and an overweight in technology and strong stock selection in consumer discretionary contributed positively to performance. Negative stock selection in health care and negative stock selection and an overweight in consumer staples detracted from performance.

The biggest contributors to performance during the quarter were DocuSign and Avalara.

- DocuSign's technology enables companies to conduct more of their business digitally. Beyond eSignature, the company provides total contract lifecycle management, which during an unprecedented shift to work at home, has had robust performance.
- Similarly, Avalara offers robust tax calculation engines with streamlined tax filing for small-and-medium sized businesses. With so much commerce shifting online, Avalara saw strong demand for its products.
- Other top contributors included MarketAxess Holdings, Ollie's Bargain Outlet Holdings and Five9.

The biggest detractors from the portfolio were InterActive Brokers Group and Elanco Animal Health

- While InterActive Brokers had seen increased trading on its platform thanks to market volatility, investors were concerned about the impact of near-zero rates on net interest margin. There is also some concern for large customer losses thanks to the precipitous decline in oil prices.
- Elanco Animal Health announced a change to its distribution strategy this quarter, which was disruptive to first quarter sales and earnings per share. Additionally, investors were concerned about the sizeable Bayer acquisition. We believe both of these issues are transitory and should eventually lead to a stronger, more competitive company.
- Other bottom contributors included Cooper Companies, Lamb Weston Holdings and Teledyne Technologies.

Purchases and Sales

There were no complete purchases or sales this quarter.

Outlook

Although the market has greatly recovered this quarter, we do not believe it is anticipating a robust economic recovery as many market commentators have suggested. If businesses were to get back to normal quickly, then many of the hardest hit areas in the stock market would not be 40% to 80% off of their 52-week highs set over the last year when the economy was not in a recession. Additionally, with the 10-year yield at a paltry 0.65% and the yield curve with only a slightly positive slope, this suggests a modest but not robust recovery. While there continues to be above-average uncertainty (second wave risk, election results, and economic recovery timeline) in the near term, we continue to believe our time-tested strategy of owning quality companies will continue to be rewarded over the long haul.

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	34
Julie Biel, CFA Portfolio Manager + Senior Research Analyst	12
Todd Beiley, CFA Senior Research Analyst	21
Jon Christensen, CFA Senior Research Analyst	25
Julie Kutasov Senior Research Analyst	19
Craig Stone Senior Research Analyst	31
Chris Wright, CFA Senior Research Analyst	8
Sean Dixon Research Analyst	11
Adam Xiao, CFA Research Analyst	5
Jordan Greenhouse Senior Portfolio Specialist	23†
James B. May, CFA Portfolio Specialist	32†

Top Five Holdings

As of June 30, 2020

Company	Percent of equity (%)
DocuSign	8.6
Avalara	6.0
Five9	5.5
MarketAxess Holdings	5.1
Tyler Technologies	4.7
Total	29.9

†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
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 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 	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

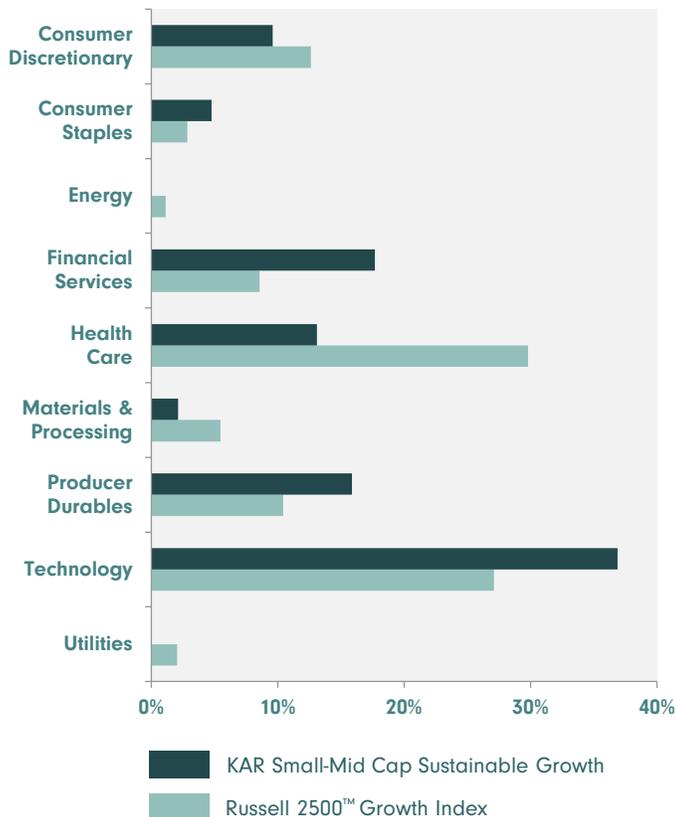
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification

As of June 30, 2020



Portfolio Characteristics

As of June 30, 2020

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
Quality		
Return on Equity—Past 5 Years	22.2%	11.0%
Total Debt/EBITDA	3.3 x	9.5 x
Earnings Variability—Past 10 Years	29.1%	66.5%
Growth		
Earnings Per Share Growth—Past 10 Years	18.0%	10.5%
Capital Generation—{ROE x (1-Payout)}	20.0%	9.5%
Value		
P/E Ratio—Trailing 12 Months	68.0 x	492.1 x
Free Cash Flow Yield†	1.6%	1.2%
Market Characteristics		
\$ Weighted Average Market Cap.	\$13.9 B	\$5.1 B
Largest Market Cap	\$31.2 B	\$14.2 B

†Free cash flow data is as of March 31, 2020. Prices are as of June 30, 2020. 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 fund has a limited number of securities, it may be more susceptible to factors adversely affecting its securities than a less concentrated fund. **Industry/Sector Concentration:** A fund that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated fund. **Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread 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.

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