

Small-Mid Cap Sustainable Growth Portfolio

Second Quarter 2021 | Managed Accounts

Portfolio Review

Relative to the first quarter of this year, there was more balanced performance across styles in the second quarter with a return to the outperformance of growth and higher market-cap names. The Russell 2500 Growth Index returned +6.04% while the Russell 2500 Value Index was up 5.00%.

The Small-Mid Cap Sustainable Growth portfolio outperformed the Russell 2500 Growth Index in the second quarter. Strong stock selection in health care and industrials contributed positively to performance. Poor stock selection in financials and an underweight in real estate detracted from performance during the period.

Overall, we are pleased with our overall stock positioning, which included reducing the portfolio's exposure to consumer staples and modestly increasing the exposure to health care. The portfolio's health care weight is now more in line with the benchmark, and we will continue to look to add to this sector.

The biggest contributors to performance during the quarter were Bentley Systems and West Pharmaceutical Services.

- Bentley Systems' stock benefited from continued interest in its technology as demand for infrastructure projects both globally and in the U.S. remains strong. Given that, we believe the company's higher valuation reflects opportunities for growth.
- West Pharmaceutical saw its shares rise in the quarter as the company's organic growth rate accelerated, clinical trials ramped back up, and the pandemic created demand for its delivery products. The company also has low debt and strong free cash flow.
- Other top contributors included Olo, Five9, and Copart.

The biggest detractors from the portfolio were Silk Road Medical and MarketAxess Holdings.

- Silk Road Medical's business was negatively impacted by the COVID crisis; however, it is seeing early signs of a recovery. The business was also hurt by a small recall on some products assembled by a single person. They have since tightened their manufacturing protocols and managed this crisis well. We expect more normalized demand as the pandemic eases.
- During the most recent quarter, low credit market volatility and narrower credit spreads served as a headwind to MarketAxess Holdings' volume growth causing shares to underperform the rest of the portfolio; however, we remain owners of MarketAxess in part because of the efficiencies provided by the network's growing liquidity pool.
- Other bottom contributors included nCino, Oscar Health, and Duck Creek Technologies.

Purchases and Sales

During the quarter, there were no new purchases in the portfolio, and we sold our position in Grocery Outlet. Grocery Outlet is one of the largest close-out grocery retailers in the country. While we believe the company has a strong business model that benefited from being able to operate during the pandemic, we believe the reopening may be more challenging for the business to navigate. With a valuation that was quite high relative to other grocer peers, we sold our position.

Outlook

Despite elevated valuations, we believe investors should stay the course and remain invested. Price/earnings (PE) ratios are higher than normal, but this is not unusual when earnings are rapidly recovering and corporate earnings were strong in the first quarter. Ironically, PE ratios may decline as the earnings recovery unfolds. However, as long as earnings growth exceeds multiple contractions, we believe returns should be favorable for investors. As always, our focus remains on high quality businesses regardless of the current economic regime. We believe competitive protections and differentiation are the key investment metrics that matter the most over the long term.

Portfolio Highlights

Style: Small-Mid Cap
Sub-Style: Growth
Index: Russell 2500™ Growth
Portfolio Inception: 2018
Portfolio Assets: \$498.7 M
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	35
Julie Biel, CFA Portfolio Manager + Senior Research Analyst	13
Todd Bailey, CFA Senior Research Analyst	22
Jon Christensen, CFA Senior Research Analyst	26
Julie Kutsov Senior Research Analyst	20
Craig Stone Senior Research Analyst	32
Chris Wright, CFA Senior Research Analyst	9
Sean Dixon Research Analyst	12
Adam Xiao, CFA Research Analyst	6
Jordan Greenhouse Senior Client Portfolio Manager	24†
James B. May, CFA Client Portfolio Manager	33†

Top Five Holdings

As of June 30, 2021

Company	Percent of equity (%)
Bentley Systems	5.3
Old Dominion Freight Line	5.3
Five9	5.1
SiteOne Landscape Supply	5.0
West Pharmaceutical Services	5.0
Total	25.6

†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 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

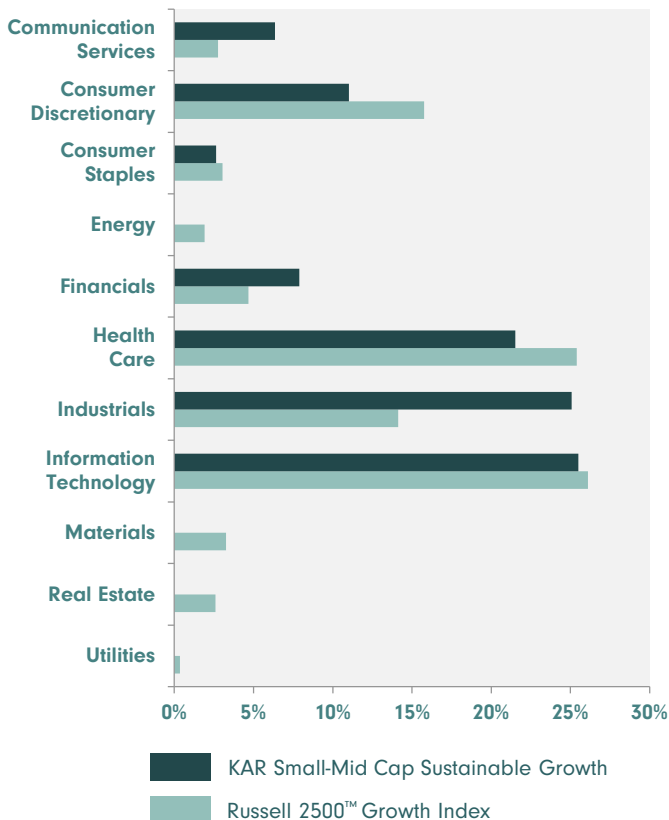
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification

As of June 30, 2021



Portfolio Characteristics

As of June 30, 2021

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
Quality		
Return on Equity—Past 5 Years	20.5%	11.0%
Total Debt/EBITDA	5.7 x	5.5 x
Earnings Variability—Past 10 Years	26.0%	72.3%
Growth		
Earnings Per Share Growth—Past 10 Years	16.7%	10.0%
Capital Generation—{ROE x (1-Payout)}	18.9%	9.5%
Value		
P/E Ratio—Trailing 12 Months	74.5 x	375.8 x
Free Cash Flow Yield†	1.9%	1.8%
Market Characteristics		
\$ Weighted Average Market Cap.	\$15.1 B	\$7.5 B
Largest Market Cap	\$31.2 B	\$24.9 B

†Free cash flow data is as of March 31, 2021. Prices are as of June 30, 2021. 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.

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