

## Small-Mid Cap Sustainable Growth Portfolio

Second Quarter 2022 | Managed Accounts

### Portfolio Review

Fears of a recession overtook the war in Ukraine as a primary concern during the quarter. With inflation very high, the Fed took action to slow the economy. A large 75 basis point hike in the quarter led to fears the economy would plow into recession rather than reach the “soft landing.” The declines in stock prices were comparable across market capitalizations, with the S&P 500 Index declining 16.10% in the quarter in line with the Russell 2000 Index which was down 17.20%. The Russell 2500 Index also declined 16.98% in the quarter. Value continues to outperform growth handily, driven in large part by the overweight of energy companies in the value indices. The Small-Mid Cap Sustainable Growth portfolio outperformed the Russell 2500 Growth Index in the second quarter. Strong stock selection and an overweight in financials and strong stock selection and an underweight in consumer discretionary contributed positively to performance during the quarter. Poor stock selection in information technology and an underweight in energy detracted from performance. Among the strongest contributors to performance during the quarter was the underweight to companies with higher betas. This reflects the types of high-quality businesses in which we invest. In periods of turbulence, such as the second quarter, our businesses tend to be less volatile as reflected by the lower beta.

The biggest contributors to performance during the quarter were Ollie's Bargain Outlet and Lamb Weston. Despite reporting soft results in the quarter, Ollie Bargain Outlet's stock appreciated due to management commentary around the quality of closeout opportunities emerging currently, and market participant assessment of the opportunity ahead of the company to capture trade-down consumer demand in a simultaneously inflationary and potentially slowing economy. Lamb Weston has seen a normalization in its business, as restaurant demand has resumed, and pricing remains strong for the company's differentiated products. Other top contributors included Ryan Specialty Holdings, Elanco Animal Health, and Azenta.

The biggest detractors to performance during the quarter were Copperleaf Technologies and West Pharmaceutical Services. CopperLeaf Technologies reported healthy growth in line with consensus estimates. However, the company's contracts are large in nature, which makes them difficult to predict quarter-to-quarter. For instance, last quarter's growth was slightly below trend due to a large contract movement. As the company has been investing in its growth, earnings were under pressure. We believe the long-term outlook is favorable and expect the company to return to profitability in the near-term. West Pharmaceutical Services continues to make strides in selling its Biologics drug delivery products. There is some concern that the strong business the company benefited from with the COVID vaccine doses would be hard to top. However, we believe the core business is very strong and that the competitive position remains intact. Other bottom contributors included Clearwater Analytics Holdings, SiteOne Landscape Supply, and Bentley Systems.

### Purchases and Sales

We purchased Azenta during the quarter and we sold Elanco Animal Health, MediaAlpha, and Olo. Azenta provides manufacturing automation solutions for the semiconductor industry and life science sample-based services and solutions for the life sciences market worldwide. The company sells both cold storage and automated DNA sample management equipment as well as providing cold storage sample management to academic institutions, pharmaceutical, and biotech industries. Once a sample is stored it is very unlikely to be moved so these storage contracts work almost like annuities. We sold our position in Elanco Animal Health as we have been disappointed in the progress the company has made in integrating its acquisitions. We also sold our position in MediaAlpha as the company is experiencing weak trends for digital advertising sales. This has been most notable in the automotive insurance industry where insurers are pulling back online spending as they work through the rebound in claims for a normalized economy. We sold our position in Olo as we saw the company struggle to return to the profitability it had as a private company before we participated in the IPO.

### Outlook

Signs of an economic slowdown and/or a recession are becoming increasingly obvious. Starting with the consumer (70% of gross domestic product), we have seen material retail sales shortfalls at large retailers and consumer confidence has hit 40-year lows. New orders for the Purchasing Managers' Index have fallen below 50, which signals contraction. Raw materials, such as copper, aluminum, nickel, and zinc, have already experienced significant declines in price in the second quarter. Even the strongest sectors (oil and semiconductors) started to show significant weakness late in the quarter. This may suggest that the U.S. is already in at least a technical recession (two consecutive quarters of negative GDP), and the Fed may be closer than investors realize to bringing inflation under control. Regardless, we believe valuations have become attractive longer term. Many stocks have declined off their highs, and speculation in IPOs, SPACs, and meme stocks is non-existent which makes for a more favorable long-term investing environment. In our view, quality companies have started to perform better on a relative basis given the slowing environment and flattening yield curve.

### Portfolio Highlights

**Style:** Small-Mid Cap  
**Sub-Style:** Growth  
**Index:** Russell 2500™ Growth  
**Portfolio Inception:** 2018  
**Portfolio Assets:** \$421.2 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 Bailey, 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>Arthur Su, CFA</b> Research Analyst	7
<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 June 30, 2022

Company	Percent of equity (%)
Ryan Specialty	6.4
West Pharmaceutical Services	5.7
Jack Henry & Associates	4.6
HEICO	4.6
Copart	4.6
<b>Total</b>	<b>25.8</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>

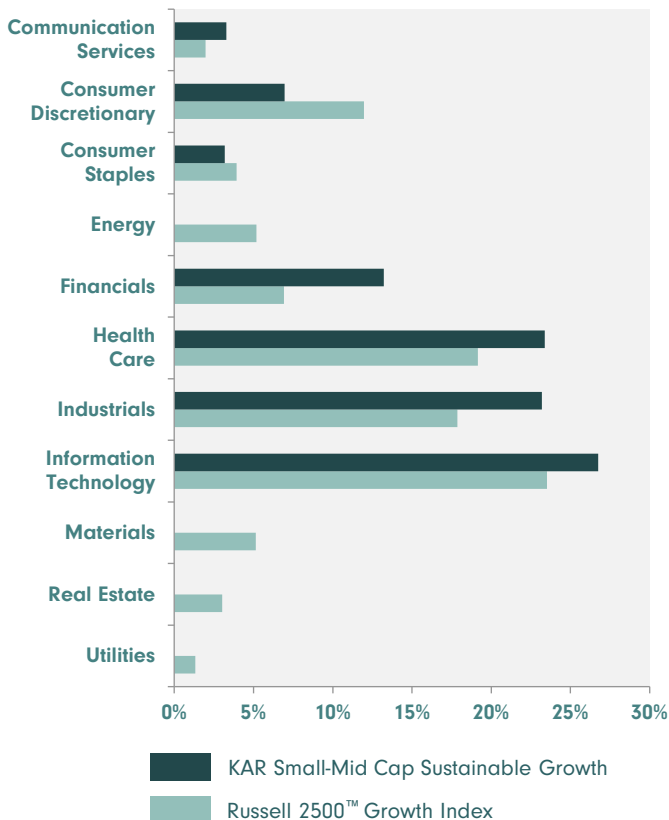
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of June 30, 2022



## Portfolio Characteristics

As of June 30, 2022

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	23.5%	14.2%
Total Debt/EBITDA	2.9 x	4.7 x
Earnings Variability—Past 10 Years	45.8%	72.1%
<b>Growth</b>		
Earnings Per Share Growth—Past 10 Years	16.2%	12.3%
Capital Generation—{ROE x (1-Payout)}	20.2%	12.1%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	49.2 x	51.0 x
Free Cash Flow Yield†	1.9%	1.8%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap.	\$12.2 B	\$5.3 B
Largest Market Cap	\$29.1 B	\$18.0 B

†Free cash flow data is as of March 31, 2022. Prices are as of June 30, 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.