

Small-Mid Cap Sustainable Growth Portfolio

Second Quarter 2023 | Managed Accounts

Portfolio Review

The KAR Small-Mid Cap Sustainable Growth portfolio underperformed the Russell 2500 Growth Index during the second quarter. Poor stock selection in health care and poor stock selection and an overweight in financials detracted the most from performance. Strong stock selection and an overweight in industrials and strong stock selection and an underweight in consumer discretionary contributed positively to performance during the period.

The biggest contributors to performance during the quarter were Bentley Systems and Copart. Bentley Systems continues to deliver strong quarterly operating results that are broadly based by end-market and geography. Even the commercial segment showed improvement. Retention remained healthy and profitability improved this quarter as the company continues to scale its fixed costs while still investing. Copart continues to grow their business and leverage their business growth into increased profitability. Additionally, the stock benefitted from an increase in its valuation multiple. Other top contributors included Saia, nCino, and Fair Isaac.

The biggest detractors from the portfolio during the quarter were MarketAxess and Certara. During the calendar quarter, MarketAxess faced headwinds from lower credit spread volatility, a lower level of credit transactions, and lower duration on investment grade credit transacted through the platform. Lower credit spread volatility also reduced the relative differentiation of the company's all-to-all liquidity pools relative to competitors' offerings. These multiple headwinds in the quarter caused the shares to underperform. Certara reported healthy software demand that was offset by lower growth in its regulatory services business. Management expects the regulatory business to pick up in the second half of the year. We believe the transition to more simulation will continue over the medium term. As there are only two players in the market and substantial barriers to entry, we view the company's growth as sustainable. Other bottom contributors included Silk Road Medical, Teledyne Technologies, and Atrion.

Purchases and Sales

During the quarter, we purchased Certara and there were no complete sales. Certara is the leader in simulation-based software for the pharmaceutical and biotech industries. Its software is used by all the largest pharmaceutical discovery teams and their regulatory services have touched 90% of drug applications in the U.S. The company competes in a concentrated market with rational pricing and, as a result, enjoys stable profitability through business cycles. Its products are also heavily used by the FDA.

Outlook

Inflation data continues to head in the right direction, which we believe may set the stage for little to no further short-term interest rate increases from here. If you exclude the P/E ratios of the top 7 companies in the S&P 500 Index, valuations decline to the 13-to-17x earnings for the rest of the market. This valuation backdrop can help offset any mild decline in earnings even if the economy does slip into a mild or shallow recession. We have seen some improvements in breadth over the last half of this quarter, but not robust enough yet to call it a trend. If breadth expands, this would be a positive sign for equities.

Portfolio Highlights

Style: Small-Mid Cap
Sub-Style: Growth
Index: Russell 2500™ Growth
Portfolio Inception: 2018
Portfolio Assets: \$527.0 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
Clarissa Ali Junior Research Analyst	<1
James B. May, CFA Client Portfolio Manager	35†
Jason Pomatto Client Portfolio Manager	29†

Top Five Holdings

As of June 30, 2023

Company	Percent of equity (%)
West Pharmaceutical Services	6.1
Ryan Specialty	5.4
Bentley Systems	5.3
Fair Isaac	5.1
HEICO	5.0
Total	26.9

*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

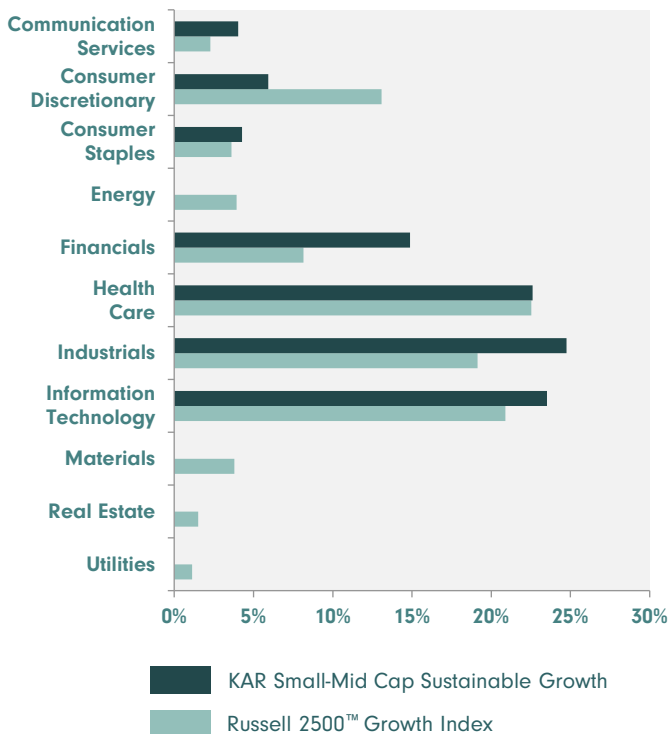
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification

As of June 30, 2023



Portfolio Characteristics

As of June 30, 2023

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
Quality		
Return on Equity—Past 5 Years	22.1%	13.7%
Debt/EBITDA	1.7 x	1.6 x
Earnings Variability—Past 10 Years	36.1%	73.8%
Growth		
Earnings Per Share Growth—Past 10 Years	13.9%	12.8%
Capital Generation—{ROE x (1-Payout)}	19.6%	12.0%
Value		
P/E Ratio—Trailing 12 Months	76.3 x	90.8 x
Free Cash Flow Yield [†]	1.3%	1.7%
Market Characteristics		
\$ Weighted Average Market Cap.	\$14.6 B	\$6.0 B
Largest Market Cap	\$43.5 B	\$17.8 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 March 31, 2023. Prices are as of June 30, 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.