

## Small-Mid Cap Sustainable Growth Portfolio

Third Quarter 2020 | Managed Accounts

### Portfolio Review

The third quarter saw continued market appreciation following very strong performance in the second quarter. The Small-Mid Cap Sustainable Growth portfolio underperformed the benchmark Russell 2500 Growth Index for the quarter.

Companies within the index with a beta above 2.0 strongly outperformed. With more than half the Small-Mid Cap Sustainable Growth portfolio in companies with betas between 0.5-1.5, it is no surprise our performance lagged this quarter. Performance was also hurt by poor stock selection and an underweight in consumer discretionary and poor stock selection and an overweight in financials. This was somewhat offset by strong stock selection in health care and communication services.

The biggest contributors to performance during the quarter were Silk Road Medical and DocuSign. Silk Road reported a solid bounce-back in procedures that had been halted with COVID-19. The company also benefited from a recent study that demonstrated the benefits of Silk's technology relative to more invasive standard of care. 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. Other top contributors included Five9, West Pharmaceutical Services and Copart.

The biggest detractors from the portfolio were HealthEquity and Ollie's Bargain Outlet. HealthEquity reported a very strong quarter, but investors seemed concerned by increased competition in the space. We believe the company's lead in its industry will be maintained over time. Ollie's Bargain Outlet again reported very strong same-store sales results helped by the COVID-19 crisis. While sales are beginning to normalize, some investors are concerned Ollie's will give back some of these gains. We believe the Ollie's shopping experience will support continued growth. Other bottom contributors included Lemonade, Jack Henry & Associates and nCino.

### Purchases and Sales

We purchased Bentley Systems, Duck Creek Technologies, HealthEquity, Lemonade, nCino and Vital Farms in the third quarter. Bentley Systems is a vertical software company serving the infrastructure markets. Bentley has been in business since 1984 and over that time, has established deep domain expertise to best serve its client base. Duck Creek Technologies provides SaaS platform solutions for the property and casualty insurance industry. Its products include Duck Creek policy, billing, claims, insights, ratings, distribution management, digital engagement, reinsurance management and Duck Creek industry content. Health Equity is the leader in employer health-care accounts. The company has leveraged its scale and strong reputation to establish its leadership position. The recent Wage Works acquisition should confer additional scale and data benefits. Lemonade is seeking to disrupt the consumer insurance market with differentiated technology and branding. We view the simplified sales and claims filing approach as very unique and expect the modern technology and reliance on data to drive down loss ratios. nCino offers a software solution for banks helping to modernize their front-end system, both for customer onboarding, account opening and loan originations. The modern architecture has gained strong success with large financial institutions and once implemented, the switching costs are very high. Vital Farms is an ethical food company disrupting the U.S. food system. It has the leading brand of pasture-raised eggs and butter and it is the second-largest U.S. egg brand.

We sold Carter's, Dynatrace, Guidewire, Interactive Brokers Group and Lennox. We sold Carter's because its retail presence is likely too large and dependent on international tourism to completely weather the downturn from COVID-19. The company will be more dependent on online sales which gave us reason for concern. While Dynatrace has seen solid demand for its solutions, competition has been steadily increasing and the switching costs between solutions is not as great as we had initially thought. Therefore, we sold our position in the quarter. We sold GuideWire as we believe competitor Duck Creek has more of a competitive edge in insurance software. We sold Interactive Brokers Group due to concerns regarding pricing pressure and its offering may not be differentiated enough from peers. We sold Lennox as the company's results were hit hard by COVID-19, particularly in terms of profitability from deleverage. We had concerns that prolonged weakness in the commercial office markets could have long-term effects for the company.

### Outlook

It will take several years to fully recover from this health crisis, particularly in the hardest hit travel-related areas. But we will recover. A full recovery will be dependent upon the restoration of health confidence brought about by a vaccine becoming widely available or the virus slowly dissipating. However, at some point, taxes will probably be raised materially (regardless of who wins the election) causing future growth to be modest. Earnings growth is likely to continue to recover from the precipitous drop in the second quarter and it should show meaningful improvement over the next two to three years, even in a modest growth environment. 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
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	34
<b>Julie Biel, CFA</b> Portfolio Manager + Senior Research Analyst	12
<b>Todd Bailey, CFA</b> Senior Research Analyst	21
<b>Jon Christensen, CFA</b> Senior Research Analyst	25
<b>Julie Kutasov</b> Senior Research Analyst	19
<b>Craig Stone</b> Senior Research Analyst	31
<b>Chris Wright, CFA</b> Senior Research Analyst	8
<b>Sean Dixon</b> Research Analyst	11
<b>Adam Xiao, CFA</b> Research Analyst	5
<b>Jordan Greenhouse</b> Senior Client Portfolio Manager	23†
<b>James B. May, CFA</b> Client Portfolio Manager	32†

### Top Five Holdings

As of September 30, 2020

Company	Percent of equity (%)
DocuSign	7.3
Five9	5.8
Silk Road Medical	5.2
MarketAxess Holdings	4.4
West Pharmaceutical Services	4.4
<b>Total</b>	<b>27.2</b>

†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 superior 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>

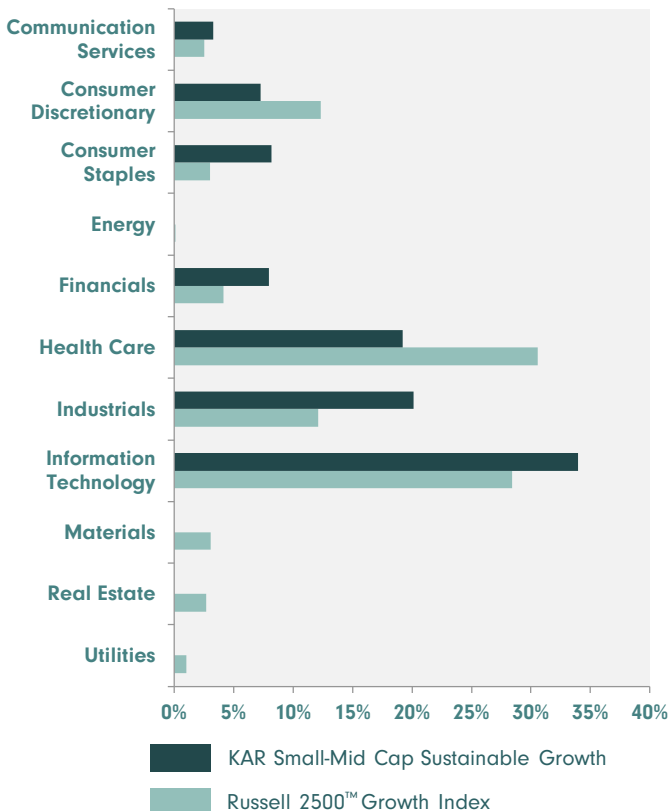
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of September 30, 2020



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.

## Portfolio Characteristics

As of September 30, 2020

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	17.8%	11.5%
Total Debt/EBITDA	5.8 x	6.1 x
Earnings Variability—Past 10 Years	20.6%	63.5%
<b>Growth</b>		
Earnings Per Share Growth—Past 10 Years	17.5%	10.2%
Capital Generation—[ROE x (1-Payout)]	16.2%	9.9%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	79.5 x	725.7 x
Free Cash Flow Yield <sup>†</sup>	1.9%	1.8%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap.	\$14.1 B	\$6.2 B
Largest Market Cap	\$39.5 B	\$23.0 B

<sup>†</sup>Free cash flow data is as of June 30, 2020. Prices are as of September 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.