

## Small-Mid Cap Sustainable Growth Portfolio

Third Quarter 2021 | Managed Accounts

### Portfolio Review

Third quarter experienced more balanced performance across styles, with higher market caps outperforming smaller businesses and less risky stocks, as measured by beta (the measurement of the volatility of stocks compared to the whole market) closer to 1 outperforming more risky stocks, as measured by beta greater than 2. The Russell 2500 Growth Index declined 3.53% while the Russell 2500 Value Index declined 2.07%.

The Small-Mid Cap Sustainable Growth strategy outperformed the Russell 2500 Growth Index during the quarter. Much of the outperformance was driven by stock selection with sector allocation also providing a modest benefit. Good stock selection and an underweight in health care and good stock selection in industrials contributed positively to performance. Negative stock selection and an overweight in communication services and negative stock selection in consumer staples detracted from performance.

The portfolio's overweight to high-quality names (as measured by S&P Quality Rankings with a ranking of B+ and above) contributed positively to performance during the quarter. Also, the highest P/E stocks (those stocks with a higher ratio of a company's share price to the company's earnings per share) outperformed during the quarter relative to stocks with lower P/Es, indicating more of a focus on growth names still early in their maturation. As we are overweight in higher P/E names, this also helped performance.

The biggest contributors to performance during the quarter were West Pharmaceutical Services and Site One Landscape Supply. West Pharmaceutical Services saw its shares rise in the quarter despite ongoing COVID-19 issues as far fewer clinical trials were cancelled. Also, the need for the company's delivery products during the crisis contributed to its outperformance. SiteOne Landscape Supply underperformed last quarter as investors worried about the forward growth of the business despite the company reporting a good quarter. This quarter, some of those worries dissipated as the company continues to see good organic daily sales and improving margins. Other top contributors included Old Dominion Freight Line, Silk Road Medical and Ryan Specialty Group Holdings.

The biggest detractors from the portfolio were MediaAlpha and Ollie's Bargain Outlet. MediaAlpha has faced headwinds from auto insurers pulling back on new customer acquisition spending as miles driven have increased and led to higher losses. The company also faced higher ad pricing from internet platforms. Investors were likely concerned that both the demand and cost for leads could decline. The company also announced its CFO was leaving. We view these issues as being transitory and believe the company is still well positioned to sustain long-term growth. Throughout the COVID-19 pandemic, Ollie's Bargain Outlet remained open for business and benefitted significantly in 2020 as the company generated robust revenue and comparable sales growth. Recently, Ollie's reported declines in both revenue and comparable sales as outperforming 2020's numbers has proven difficult. Additionally, Ollie's replaced their Senior Vice President of Supply Chain in August as the company seeks to improve supply chain productivity. We view the short-term revenue and comparable sales declines as reasonable given the prior year's performance and believe the long-term competitive posture of the business remains intact. Other bottom contributors included HealthEquity, Lamb Weston and Olo.

### Purchases and Sales

During the quarter, we purchased Clearwater Analytics and Ryan Specialty Group Holdings. We sold Lemonade and Oscar Health. Clearwater Analytics provides investment accounting software. The software is used by asset managers, corporate treasuries and insurance companies for daily reconciliation of their holdings. The company specializes in reconciling more esoteric securities, where the need for accurate data is harder to obtain without scale. Ryan Specialty Group Holdings engages in the provision of wholesale insurance brokerage, distribution and underwriting services through its subsidiaries. Its specialties include Wholesale Brokerage, Binding Authority and Underwriting Management. The company enjoys scale advantages against smaller competitors, which provide its insurance professionals more relationships with retail brokerages and therefore more policy submission opportunity. We sold Lemonade and Oscar Health (in tandem with our participation in the Ryan Specialty Group IPO) as we believe that the competitive landscape throughout disruptive insurance companies is still unsettled. Given the high costs of acquiring market share and the new approaches to qualifying risk, we believed it was better for insurance companies to be acting as brokers than underwriters and exited our small positions in both companies.

### Outlook

We believe the two most important variables affecting equity markets are interest rates and corporate profitability. The Federal Reserve will start tapering their purchases of bonds next month, but this has been well telegraphed to investors. Relatively benign interest rates and strong corporate profitability are a prescription for rising equity prices over time. However, we believe investors should expect a more selective market going forward and more muted equity returns. It is more likely that we will continue to grow but at a more moderate and sustainable pace. We believe this should be an environment where stocks of high-quality businesses can perform well.

### Portfolio Highlights

**Style:** Small-Mid Cap  
**Sub-Style:** Growth  
**Index:** Russell 2500™ Growth  
**Portfolio Inception:** 2018  
**Portfolio Assets:** \$511.5 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

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

### Top Five Holdings

As of September 30, 2021

Company	Percent of equity (%)
Old Dominion Freight Line	5.9
West Pharmaceutical Services	5.8
Bentley Systems	4.9
Silk Road Medical	4.8
SiteOne Landscape Supply	4.8
<b>Total</b>	<b>26.2</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 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>

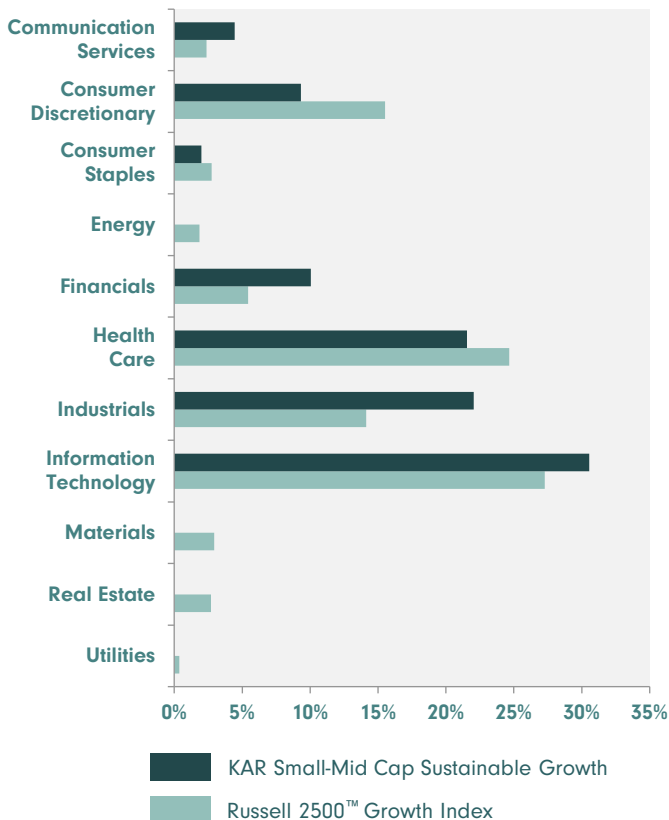
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of September 30, 2021



## Portfolio Characteristics

As of September 30, 2021

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	22.6%	11.3%
Total Debt/EBITDA	4.1 x	3.9 x
Earnings Variability—Past 10 Years	27.2%	72.5%
<b>Growth</b>		
Earnings Per Share Growth—Past 10 Years	16.5%	10.6%
Capital Generation—{ROE x (1-Payout)}	20.6%	9.7%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	63.4 x	107.4 x
Free Cash Flow Yield†	1.7%	2.2%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap.	\$16.3 B	\$7.8 B
Largest Market Cap	\$33.2 B	\$30.5 B

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

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.