

Small-Mid Cap Sustainable Growth Portfolio

Third Quarter 2023 | Managed Accounts

Portfolio Review

The Small-Mid Cap Sustainable Growth portfolio outperformed the Russell 2500 Growth Index in the third quarter. Strong stock selection in industrials and information technology contributed positively to performance. An underweight in energy and poor stock selection in consumer staples detracted from performance during the quarter.

The biggest contributors to performance during the quarter were Ollie's Bargain Outlet and HealthEquity.

- Ollie's Bargain Outlet reported sales growth and profit margin expansion during the quarter. The company's sales benefited from customers trading down to bargain concepts, while margins improved due to supply chain headwinds easing.
- HealthEquity's business benefited from increasing interest rates and improved execution as it digests its previous acquisition of WageWorks. HSA growth for the industry continues to be healthy, and in our view the company continues to benefit from its scale and breadth of offering and ability to bundle products. Additionally, the company purchased the health savings account portfolio from a top 10 HSA provider. We believe further consolidation continues to enable sustainable earnings growth for HealthEquity.
- Other top contributors included Clearwater Analytics, Saia, and Ryan Specialty Holdings.

The biggest detractors from the portfolio were Silk Road Medical and Lamb Weston.

- Silk Road Medical reported decent results this quarter, demonstrating clear uptake among trained surgeons using the new technology. Pricing remains firm and profitability is improving. However, investors remain concerned by the recent CMS proposal to reimburse a competing technology (TFCAS) at parity with SilkRoad's TCAR. TFCAS is more challenging to perform and has a two times higher risk of stroke for a patient. We believe the more relevant competitor to TCAR is CEA, or open surgery, which is the current gold standard of care. While the reimbursement is the same, it is more profitable for a hospital to do CEA and not spend on Silk Road's stent and blood reversal technology.
- Lamb Weston experienced more pronounced volume declines than expected in the most recent quarter due to a slowdown in restaurant traffic and some customer inventory destocking. Additionally, market participants were concerned about possible margin reversion, particularly as the company adds sizeable processing capacity into a softer environment. Given high expectations after several quarters of solid execution, the shares underperformed.
- Other bottom contributors included Atrion, MarketAxess, and Certara.

Purchases and Sales

There were no new purchases or complete sales in the portfolio during the quarter.

Outlook

Despite the pullback in equities this quarter, we believe many stocks are attractively positioned for future growth at reasonable prices. Investors in the short run have continued to pour money into money market accounts yielding over 5% but we believe this is likely to be a short-term opportunity as inflation eases over the next 12 months. Despite the slowing economy over the last two years, corporate earnings have been barely dented, even with COVID dislocations and dramatic interest rate increases. Therefore, we continue to believe the S&P 500 bottomed last October, which, in our view, should incentivize investors to stay put in these more uncertain and controversial times.

Portfolio Highlights

Style: Small-Mid Cap
Sub-Style: Growth
Index: Russell 2500™ Growth
Portfolio Inception: 2018
Portfolio Assets: \$526.2 M*
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
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 Kutsov Senior Research Analyst	22
Craig Stone Senior Research Analyst	34
Adam Xiao, CFA Senior Research Analyst	10
Sean Dixon Research Analyst	15
Luke Longinotti ESG Research Analyst	3
Arthur Su, CFA Research Analyst	8
Clarissa Ali Associate Research Analyst	<1

Top Five Holdings

As of September 30, 2023

Company	Percent of equity (%)
West Pharmaceutical Services	6.0
Ryan Specialty	5.8
Fair Isaac	5.5
Bentley Systems	4.9
HEICO	4.6
Total	26.9

*Figures in USD.

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

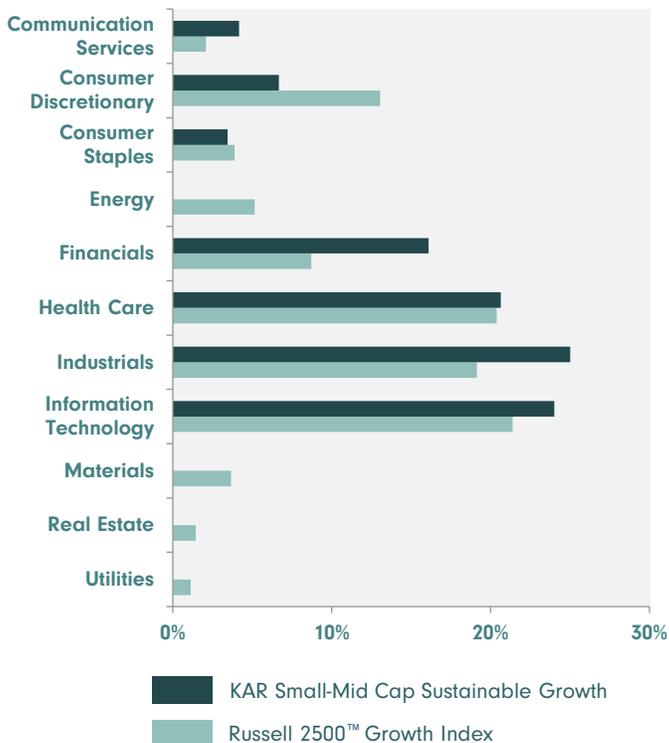
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification

As of September 30, 2023



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Portfolio Characteristics

As of September 30, 2023

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
Quality		
Return on Equity—Past 5 Years	21.8%	14.8%
Debt/EBITDA*	1.5 x	1.5 x
Earnings Variability—Past 10 Years	37.3%	76.3%
Growth		
Earnings Per Share Growth—Past 10 Years	13.6%	13.3%
Capital Generation—{ROE x (1-Payout)}	19.4%	12.9%
Value		
P/E Ratio—Trailing 12 Months	68.5 x	59.1 x
Free Cash Flow Yield†	1.7%	2.3%
Market Characteristics		
\$ Weighted Average Market Cap.	\$14.2 B	\$5.9 B
Largest Market Cap	\$41.1 B	\$18.6 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 June 30, 2023. Prices are as of September 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.**

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, medium, or large-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. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended.