Kayne Anderson Rudnick
Investment Management

Small-Mid Cap Sustainable Growth Portfolio

First Quarter 2021 | Managed Accounts

Portfolio Review

First quarter market performance saw a continuation of trends that began in the fourth quarter of 2020. More cyclical names in the value segments saw outsized performance while growth remained under pressure. The Russell 2500 Growth Index returned 2.49% while the Russell 2500 Value Index was up 16.83%. Given the rotation to value cyclicals, the Kayne Anderson Rudnick Small-Mid Cap Sustainable Growth strategy underperformed its benchmark.

Poor stock selection in industrials and financials detracted the most from performance during the quarter. The portfolio's underweight in utilities and real estate detracted the least from performance. On an absolute return basis (gross of fees), the portfolio's best performing sector this quarter was consumer discretionary, benefiting from enthusiasm around a reopening economy. Our worst performing sector was financials.

Overall, we believe the portfolio is well positioned with several holdings that are poised to benefit from an improving economy. This is balanced with some core holdings that showed strong earnings resilience during the most recent downturn in the economy.

The biggest contributors to performance during the quarter were Old Dominion Freight Line and Bentley Systems. Old Dominion Freight Line is a leading less-than-truckload (LTL) trucking company in the United States. The company's reputation for on-time and undamaged deliveries allows it to charge premium prices to shippers. We believe Old Dominion's reputation combined with a dense network of service centers allows the company to earn better economics than competitors. Rather continually, we think Old Dominion's focus on providing high-quality services to customers continues to yield market share gains over time. Bentley Systems engages in the provision of software solutions for infrastructure engineering, enabling the work of civil, structural, geotechnical, plant engineering practitioners, project delivery enterprises, and owner-operators of infrastructure assets. Following a successful IPO in 2020, the company reported healthy demand for its infrastructure solutions. Additionally, with the recent inauguration of President Biden and the focus on infrastructure spending, the stock has likely benefited. We would note that spending on infrastructure will likely take time and do not expect a material uplift to earnings in the meantime. Other top contributors included SiteOne Landscape Supply, Teledyne Technologies and Ollie's Bargain Outlet.

The biggest detractors from the portfolio were Silk Road Medical and Avalara. Silk Road Medical develops and manufactures medical devices to treat neurovascular diseases. The firm's devices enable vascular access via a puncture adjacent to the collarbone instead of the traditional approach of accessing the vascular system through the groin. The company made significant progress on moving its TCAR technology to become the standard of care, including Standard Risk filing, and training doctors on the technology. Unfortunately, the company did announce a voluntary recall on a limited number of stent tips, having found the root cause of the problem. No deaths or strokes have been reported and fallout with doctors and suppliers has been limited. We believe the bigger challenge is in replenishing new stock of product in a timely fashion. We expect these issues to be transitory. Avalara engages in the provision of cloud-based solutions. Avalara reported strong results to end the quarter. Its solution has been helping businesses across the country in their transition to ecommerce. That said, the stock's multiple was high and, in the broader rotation from growth to value, the company's stock came under pressure. We believe fundamentals however, remain quite strong. Other bottom contributors included Five9, MarketAxess and Copart.

Purchases and Sales

During the quarter, we purchased MediaAlpha, an online platform that enables auto insurance companies to bid and buy customer referrals; Olo, an ecommerce enablement platform for the restaurant industry; and Oscar Health, an innovative and disruptive company offering digitally enabled health insurance.

We sold DocuSign due to its larger market capitalization; Paycom Software due to its larger market capitalization and over concerns about the increase in costs to the business, notably, stock based compensation; and Vital Farms, due to concerns about the brand not being differentiated enough and as we position the portfolio away from consumer staples.

Outlook

We believe the 2021/2022 economic outlook is becoming increasingly robust given significant pent-up consumer demand combined with record net worth, several trillion dollars of federal stimulus being distributed this year, vaccinations, and declining COVID-19 hospitalizations, all of which are improving consumer confidence. In a rapidly accelerating economic growth environment, low quality stocks tend to outperform high quality businesses as investors seek out companies with more operating and financial leverage. In our experience, equity markets are often 6 to 12 months ahead in assessing the business and economic environment. Once the acceleration in GDP starts to stabilize, we expect the relative performance of high-quality stocks will start to improve.

Portfolio Highlights

Style: Small-Mid Cap
Sub-Style: Growth
Index: Russell 2500™ Growth
Portfolio Inception: 2018
Portfolio Assets: $116.1 M
Portfolio Turnover: 25%–35%

Investment Management Team

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

Top Five Holdings

As of March 31, 2021

Company	Percent of equity (%)
SiteOne Landscape Supply	5.5
Old Dominion Freight Line	5.4
Five9	4.8
MarketAxess Holdings	4.3
West Pharmaceutical Services	4.2
Total	**24.2**

†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.

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Investment Management

Investment Process: Discovering Quality

Development of High-Quality Universe	Proprietary Fundamental Research	Portfolio Construction	Sell Discipline

Development of High-Quality Universe

Quantitative Screens
- High return on capital over a full economic cycle
- Long and resilient earnings history
- High return on net operating assets
- Minimal debt

Other Resources
- Research on existing portfolio holdings
- Meetings with companies
- Industry reviews
- Investment conferences
- Third-party research

Proprietary Fundamental Research

Qualitative Analysis
- Evaluate sustainability of business model and assess management's ability to direct capital where it can create further control of its market

Financial Analysis
- Evaluate basis for profitability, long-term growth potential, and ability to allocate capital appropriately

Valuation Analysis
- Determine the current and potential value of the business

Portfolio Construction

Position Weights
- Maximum initial position size is 5% (at cost)
- Maximum position size is 10% (at market)

Sector Tolerances
- Seek broad diversification, but no sector constraints

Non-U.S. Holdings
- Up to 20%

Holding Period
- Typically 3-to-5 years, but is often longer
- Portfolio turnover is typically 25% to 35%

Cash Levels
- Typically will not exceed 10% once a portfolio is fully invested; review by CIO triggered if over 10%

Sell Discipline

Extended Valuation

Portfolio Upgrade

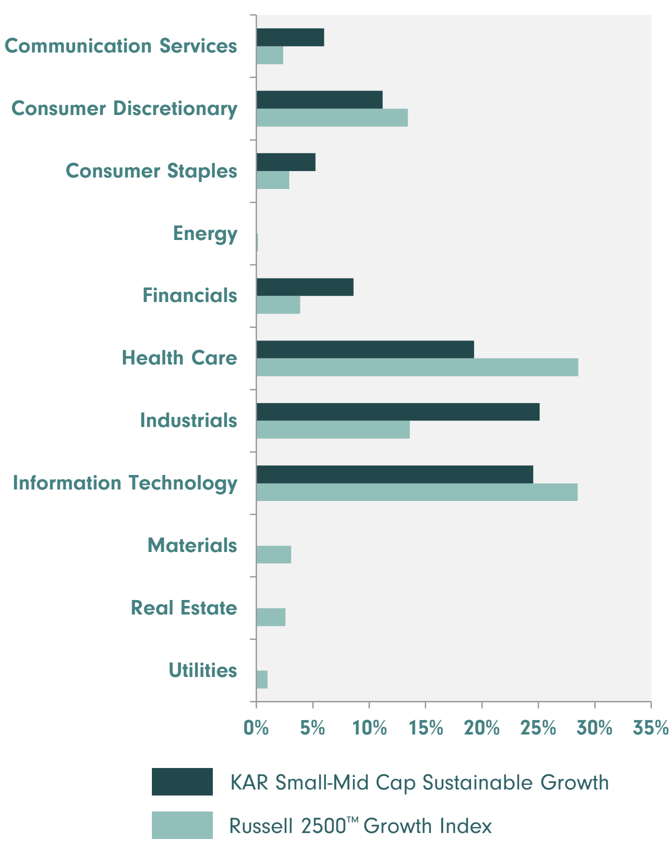
Acquisition Activity

Negative Company or Industry Changes

Higher Quality | Stronger, More Consistent Growth | Better Value

Sector Diversification

As of March 31, 2021



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 March 31, 2021

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
Quality		
Return on Equity—Past 5 Years	19.0%	11.7%
Total Debt/EBITDA*	259.1 x	5.5 x
Earnings Variability—Past 10 Years	25.3%	63.9%
Growth		
Earnings Per Share Growth—Past 10 Years	17.0%	11.2%
Capital Generation—{ROE x (1-Payout)}	17.4%	10.2%
Value		
P/E Ratio—Trailing 12 Months	67.0 x	533.0 x
Free Cash Flow Yield†	2.1%	1.7%
Market Characteristics		
$ Weighted Average Market Cap.	$13.2 B	$7.7 B
Largest Market Cap	$28.7 B	$31.2 B

**There was a material difference in Total Debt/EBITDA and Interest Coverage Expense quality indicators for the strategy as of March 31, 2021 over the prior quarter end of December 31, 2020. This is primarily due to a single issuer in the portfolio experiencing a depressed EBITDA due to the effect of the pandemic on that issuer's business.*

†Free cash flow data is as of December 31, 2020. Prices are as of March 31, 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.