

Small-Mid Cap Sustainable Growth Portfolio

Fourth Quarter 2022 | Managed Accounts

Portfolio Review

2022 closed out the year with another volatile quarter where it was challenging to find any real leadership. Large cap stocks performed strongly in the quarter with the S&P 500 Index increasing 7.56%, whereas the Russell 2000 Index of small cap stocks increased 6.23%. Posturing transitioned through the quarter with a risk-on environment early on when less terrifying but still high inflation led to investor optimism. As we entered December, however, investors became more concerned about the economy and central banks globally made it clear they were committed to holding interest rates higher for however long it takes to get to reasonable levels of inflation. For the year, the S&P 500 Index declined 18.11% and the Russell 2000 Index declined 20.44%. The Russell 2500 Index increased 7.43% in the quarter. The trend of value outperforming growth returned with the Russell 2500 Value Index increasing 9.21% and the Russell 2500 Growth Index up 4.72%. Investors continued to sell high-flying technology stocks, preferring less expensive, older-economy type businesses. The Small-Mid Cap Sustainable Growth portfolio outperformed the Russell 2500 Growth Index during the quarter. Strong stock selection in health care and industrials contributed positively to performance. An underweight in energy, the best performing sector in the quarter, and poor stock selection and an underweight in consumer discretionary detracted from performance. In general, sector allocation detracted from performance while stock selection contributed positively.

The biggest contributors to performance during the quarter were Fair Isaac and Silk Road Medical. Over the last 12 months, Fair Isaac's shares have been volatile but have outperformed due to improvements in profitability and a more favorable outlook despite increasing mortgage headwinds. The company also continues to make good progress in driving platform software annual recurring revenue. Silk Road Medical reported a solid quarter despite hospital utilizations still being below historical averages. This included the fourth sequential quarter of higher Transcatheter Aortic Valve Replacement (TAVR) utilization (procedures per physician per quarter) with higher volumes on a year-over-year and sequential basis. We believe profitability is also moving in the right direction despite ongoing cost pressures. Other top contributors included Bentley Systems, Globus Medical, and Teledyne Technologies.

The biggest detractors from the portfolio were nCino and Tyler Technologies. Like many software businesses, nCino's share price was under pressure for most of 2022. In the most recent quarter, revenue grew organically, and the company reported its first quarter of adjusted operating profit. The company also continues to grow its backlog of contracts and is winning new customers. Despite these positives, the stock was an underperformer due to the market's aversion to software names and concerns an economic slowdown in 2023 will dampen demand from banks. Tyler Technologies reported solid results in the quarter, although the move to more ratable revenue versus perpetual licenses did impact near-term results and profitability. The company also experienced pressure on its services business, but this was a result of not being able to staff projects rather than from softer demand. We believe there continues to be healthy underlying demand for the company's services and the SaaS revenue model will bring greater stability. Other bottom contributors included HealthEquity, West Pharmaceutical Services, and Copperleaf Technologies.

Purchases and Sales

During the quarter, we purchased Atrion. There were no sales during the quarter. Atrion develops, manufactures, and sells products for fluid delivery, cardiovascular, and ophthalmology applications worldwide. Their products are utilized in various medical procedures that are vital for treatment. While some of these products may seem commoditized, they are highly engineered with little room for malfunction in areas such as intensive care and oncology. Atrion has relatively little competition from larger players given the smaller size of its markets.

Outlook

The Federal Reserve's hawkish monetary policy combined with improving supply chain issues appear to be working in reducing the core inflation rate. Inflation concerns, however, have been replaced by impending recession fears in the market. We certainly have witnessed a growth slowdown over the last year, and we are likely to see a continued growth slowdown over the next six-to-twelve months. The stock market seems to be already pricing in a moderate recession for 2023. This has to be the most anticipated recession in the history of corporate America. This does not mean that a recession cannot occur, but it does suggest a hard landing is less probable. Recession fears will not disappear overnight so investors should expect continued volatility in 2023 and will need to be patient. Additionally, the top-heavy S&P 500 companies, MAMAA (Meta, Apple, Microsoft, Amazon, and Alphabet) in particular, are having significant fundamental growth issues which has not been the case since 2008. In our view, this may bode well for many small- and medium-sized companies, which can continue to grow in a lackluster economic environment.

Portfolio Highlights

Style: Small-Mid Cap
Sub-Style: Growth
Index: Russell 2500™ Growth
Portfolio Inception: 2018
Portfolio Assets: \$451.2 M*
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	36
Julie Biel, CFA Portfolio Manager + Senior Research Analyst	14
Chris Wright, CFA Portfolio Manager + Senior Research Analyst	10
Todd Beiley, CFA Senior Research Analyst	23
Jon Christensen, CFA Senior Research Analyst	27
Julie Kutsov Senior Research Analyst	21
Craig Stone Senior Research Analyst	33
Sean Dixon Research Analyst	14
Arthur Su, CFA Research Analyst	7
Adam Xiao, CFA Research Analyst	9
Jordan Greenhouse Senior Client Portfolio Manager	25†
James B. May, CFA Client Portfolio Manager	34†
Jason Pomatto Client Portfolio Manager	28†

Top Five Holdings

As of December 31, 2022

Company	Percent of equity (%)
Ryan Specialty	6.4
Silk Road Medical	6.0
HEICO	4.9
Copart	4.8
Fair Isaac	4.4
Total	26.6

*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

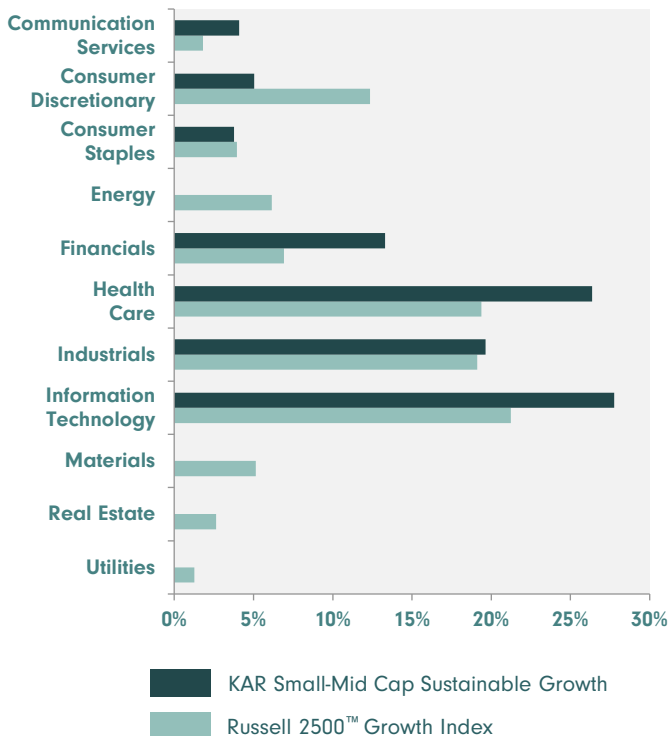
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification

As of December 31, 2022



Portfolio Characteristics

As of December 31, 2022

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
Quality		
Return on Equity—Past 5 Years	22.0%	16.0%
Total Debt/EBITDA*	1.7 x	1.7 x
Earnings Variability—Past 10 Years	34.0%	70.2%
Growth		
Earnings Per Share Growth—Past 10 Years	14.5%	13.5%
Capital Generation—{ROE x (1-Payout)}	18.7%	13.6%
Value		
P/E Ratio—Trailing 12 Months	65.2 x	37.8 x
Free Cash Flow Yield†	1.4%	2.1%
Market Characteristics		
\$ Weighted Average Market Cap.	\$11.2 B	\$5.8 B
Largest Market Cap	\$28.9 B	\$20.5 B

*KAR utilizes the interquartile method when calculating TD/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.

†Free cash flow data is as of September 30, 2022. Prices are as of December 31, 2022. 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:** 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.