

Small-Mid Cap Sustainable Growth Portfolio

Fourth Quarter 2023 | Managed Accounts

Portfolio Review

The Small-Mid Cap Sustainable Growth portfolio underperformed the Russell 2500 Growth Index in the fourth quarter. Stock selection was the challenge in the quarter as investors flocked to the most beaten down and levered names in the benchmark. Poor stock selection in health care and information technology detracted the most from performance. Good stock selection in industrials and an underweight in energy contributed positively during the quarter.

The biggest contributors to performance during the quarter were Fair Isaac and Simpson Manufacturing. Fair Isaac's shares outperformed in the quarter as the company continued to produce strong financial results despite a weak loan origination market due to its ability to raise scores pricing. Its software business also continued to deliver on its land-and-expand strategy. Management presented strong guidance for the upcoming fiscal year, which we believe will benefit the company similarly to this past fiscal year. Simpson Manufacturing's shares benefited from healthy results and continued pricing power in its end markets. The shares also benefited from lower expected interest rates adding to investor expectations for a strong housing market as buyers' affordability improves. Other top contributors included MarketAxess, Moelis, and Aspen Technology.

The biggest detractors to performance during the quarter were Silk Road Medical and Ryan Specialty. Silk Road Medical reported weak numbers in the third quarter, confirming fears that the business was experiencing increased competition from other methods as well as stubbornly low adoption among trained physicians. The company's CEO also stepped down. We exited our position during the quarter as the company's competitive position was not as strong as we had anticipated. Shares in Ryan Specialty declined in the quarter as investors anticipated the potential for slowing interest rate increases across the property and casualty insurance industry as inflation moderates. Other bottom contributors included West Pharmaceutical Services, HealthEquity, and Atrion.

Purchases and Sales

During the quarter, we purchased Aspen Technology, Moelis, and Simpson Manufacturing. We sold our position in Copart as the company's market capitalization is outside the portfolio's small and mid-cap mandate. We also sold Silk Road Medical (described above). Aspen Technology is one of the largest process optimization software companies. Its software runs mission critical operations in the Oil and Gas, Chemicals, Engineering and Construction, and other industrial segments. The software has high switching costs and, as a result, has experienced durable earnings growth even in challenging markets. Moelis is a boutique investment bank founded just before the Global Financial Crisis by Kenneth Moelis, a well-known investment banker. As it did during the financial crisis, the company took advantage recently of weaker M&A markets to attract the best talent to take share when dealmaking returned. As interest rates normalize, we expect pent up demand, particularly with private equity clients, to drive earnings growth. Simpson Manufacturing is one of the leading manufacturers of wood construction connectors. Its "Strong Tie" products have a dominant position in the market, often specified by local building codes. As a result, it enjoys healthy profitability and an ability to enact regular price increases. We believe the company benefits from being homebuilder agnostic and from the continued housing shortage in the U.S.

Outlook

With the Federal Reserve hiking cycle behind us and corporate earnings growth likely to resume, we believe 2024 should be a favorable year for equity returns. Coming into 2024, investor sentiment is nowhere near as negative as it was coming into 2023 but there is still plenty of cash on the sidelines built up over the last year. As short-term interest rates decline and the yield curve moves to flat, or even positively sloped, we believe this capital will make its way into fixed income and equity markets. From our perspective, returns in 2024 are unlikely to be as robust as 2023 but are likely to generate returns in line with earnings growth. We expect that 2024 will experience more volatility due to the election, which is likely to be contentious.

Portfolio Highlights

Style: Small-Mid Cap
Sub-Style: Growth
Index: Russell 2500™ Growth
Portfolio Inception: 2018
Portfolio Assets: \$586.3 M*
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Research Start Date
Julie Biel, CFA Portfolio Manager + Senior Research Analyst	2004
Chris Wright, CFA Portfolio Manager + Senior Research Analyst	2012
Todd Beiley, CFA Senior Research Analyst	1999
Jon Christensen, CFA Senior Research Analyst	1995
Julie Kutsov Senior Research Analyst	2001
Craig Stone Senior Research Analyst	1990
Adam Xiao, CFA Senior Research Analyst	2013
Sean Dixon Research Analyst	2008
Luke Longinotti ESG Research Analyst	2020
Arthur Su, CFA Research Analyst	2015
Clarissa Ali Associate Research Analyst	2023

Top Five Holdings

As of December 31, 2023

Company	Percent of equity (%)
Fair Isaac	6.7
West Pharmaceutical Services	4.9
Bentley Systems	4.8
HEICO	4.7
Ryan Specialty	4.6
Total	25.7

*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

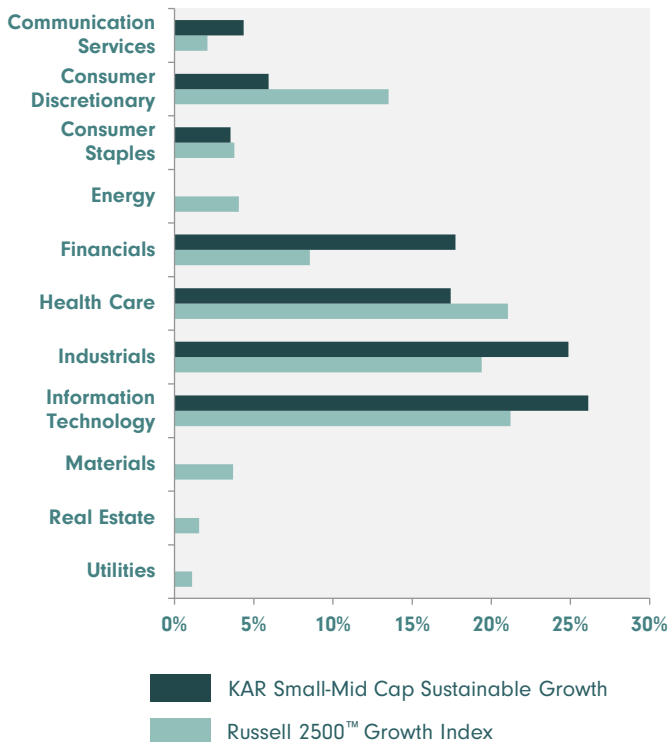
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification

As of December 31, 2023



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 December 31, 2023

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
Quality		
Return on Equity—Past 5 Years	21.8%	15.1%
Debt/EBITDA*	1.4 x	1.5 x
Earnings Variability—Past 10 Years	41.3%	70.3%
Growth		
Earnings Per Share Growth—Past 10 Years	12.0%	13.9%
Capital Generation—{ROE x (1-Payout)}	18.2%	13.2%
Value		
P/E Ratio—Trailing 12 Months	70.7 x	63.5 x
Free Cash Flow Yield†	1.9%	2.3%
Market Characteristics		
\$ Weighted Average Market Cap.	\$13.7 B	\$6.6 B
Largest Market Cap	\$34.5 B	\$20.7 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 September 30, 2023. Prices are as of December 31, 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.