

## Small-Mid Cap Core Portfolio

Second Quarter 2022 | Managed Accounts



Manager of the Decade for the last 5 years (2017 - 2021)

### Portfolio Review

The Small-Mid Cap Core portfolio performed in line with the Russell 2500 Index in the second quarter. Good stock selection in financials and information technology contributed positively to performance. Poor stock selection in health care and materials detracted from performance.

The biggest contributors to performance during the quarter were W. R. Berkley and Aspen Technology. W. R. Berkley reported strong net written premium growth due to both increased exposures and higher rates. An improved combined ratio also aided profitability and management said it expects healthy trends in specialty lines to continue to drive favorable results. Aspen Technology reported sustained improvement in operating results following a slowdown brought on by the pandemic. In addition, a previously announced merger closed in May. We view this transaction as a positive given Aspen's strong track record of optimizing software businesses for profitability and rationale growth. Other top contributors included Rollins, LPL Financial, and Aspen Technology\*.

The biggest detractors from performance were Scotts Miracle-Gro and Zebra Technologies. Scotts Miracle-Gro's shares lagged due to higher-than-expected inflation costs outpacing significant pricing actions. In early June, management reduced the company's annual sales and earnings outlook because of a lower-than-anticipated level of order replenishment by retailers. In addition, cannabis oversupply issues continue to weigh on the outlook for Hawthorne, the company's hydroponics division. During the quarter, investors sold shares of Zebra Technologies as the company's stock was caught among a sector rotation away from technology. Other bottom detractors included Charles River Laboratories, Bentley Systems, and SiteOne Landscape Supply.

### Purchases and Sales

During the quarter, we purchased Dolby Laboratories, Globus Medical, and Watsco. We sold CDW, Duck Creek Technologies, and MSCI. Dolby Laboratories designs high-quality audio and visual technology that it implements in its own products as well as licenses to original equipment manufacturers (OEMs), content producers, streaming services, and cell phone manufacturers. Globus Medical is a medical device company that designs and develops musculoskeletal implants that promote healing in patients with spine disorders. It offers products that address an array of spinal pathologies, anatomies, and surgical approaches. Watsco is the largest independent distributor of HVAC equipment to residential and commercial contractors in the U.S. and holds roughly a 12% market share in a very fragmented market. Roughly 85% of the business is related to maintenance, repair, and replacement activities. The company's end customers are HVAC contractors of which there are over 90,000 in the U.S. We believe the portfolio's shares of CDW performed admirably since our initial purchase in December 2014. However, with the company's market cap having reached nearly \$25 billion, it has outgrown the mandate for the Small-Mid Cap Core strategy. With top-line growth decelerating at Duck Creek, investors have grown concerned over a potentially changing competitive landscape with the industry's largest player gaining traction with its recently improved cloud offering. Although Duck Creek's management maintains that the competitive landscape remains stable and that the company's low code architecture continues to serve as a key competitive advantage, we believe that the competitive landscape dynamics bear watching and elected to exit our position in the company. We sold our position in MSCI given its large market capitalization of over \$40 billion.

### Outlook

Signs of an economic slowdown and/or a recession are becoming increasingly obvious. Starting with the consumer (70% of gross domestic product), we have seen material retail sales shortfalls at large retailers and consumer confidence has hit 40-year lows. New orders for the Purchasing Managers' Index have fallen below 50, which signals contraction. Raw materials, such as copper, aluminum, nickel, and zinc, have already experienced significant declines in price in the second quarter. Even the strongest sectors (oil and semiconductors) started to show significant weakness late in the quarter. This may suggest that the U.S. is already in at least a technical recession (two consecutive quarters of negative GDP), and the Fed may be closer than investors realize to bringing inflation under control. Regardless, we believe valuations have become attractive longer term. Many stocks have declined off their highs, and speculation in IPOs, SPACs, and meme stocks is non-existent which makes for a more favorable long-term investing environment. In our view, quality companies have started to perform better on a relative basis given the slowing environment and flattening yield curve.

\* Aspen Technology merged with a spinoff of two businesses from Emerson Electric Co. during the quarter to form a new entity also called Aspen Technology. Aspen Technology appears twice as a Top Contributor as the first occurrence represents the old entity and the second occurrence represents the newly formed entity. Our data provider is keeping the entities distinct in their system which accounts for the dual reporting this quarter.

### Portfolio Highlights

**Style:** Small-Mid Cap  
**Sub-Style:** Core  
**Index:** Russell 2500™  
**Portfolio Inception:** 1992  
**Portfolio Assets:** \$13,108.9 M\*  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

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

### Top Five Holdings

As of June 30, 2022

Company	Percent of equity (%)
W. R. Berkley	5.9
LPL Financial Holdings	5.2
POOLCORP	4.9
Charles River Laboratories International	4.6
Zebra Technologies	4.4
<b>Total</b>	<b>24.8</b>

\* 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. 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>

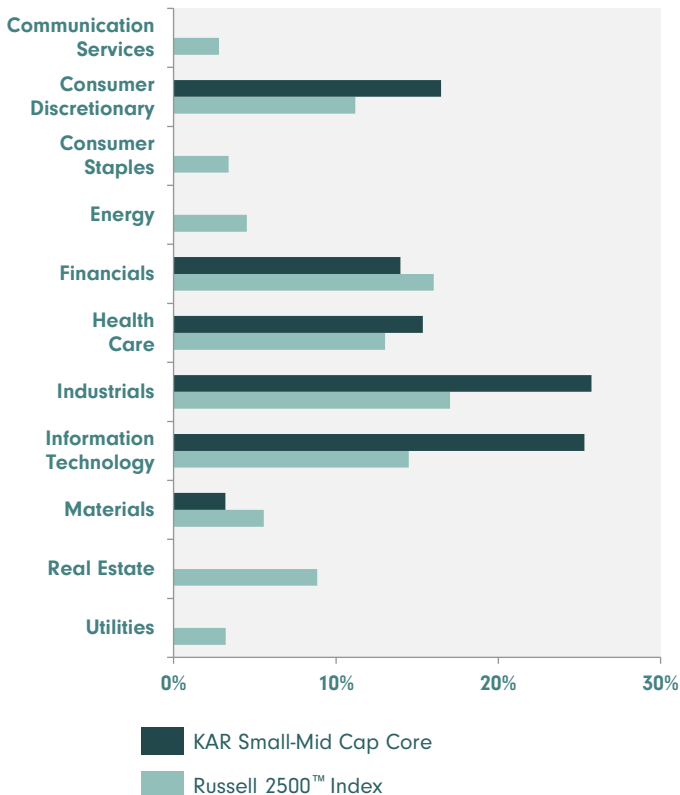
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of June 30, 2022



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 June 30, 2022

	KAR Small-Mid Cap Core	Russell 2500™ Index
<b>Quality</b>		
Return on Equity—Past 5 Years	24.8%	12.2%
Total Debt/EBITDA	2.3 x	4.7 x
Earnings Variability—Past 10 Years	36.4%	74.8%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	19.6%	13.5%
Earnings Per Share Growth—Past 10 Years	15.0%	9.6%
Capital Generation—{ROE x (1-Payout)}	19.9%	9.3%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	18.2 x	22.5 x
Dividend Yield	0.8%	1.6%
Free Cash Flow Yield†	3.6%	2.8%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$14.2 B	\$6.3 B
Largest Market Cap—3-Year Avg.	\$35.5 B	\$26.9 B
Annualized Standard Deviation—Since Inception*	16.5%	20.2%

†Free cash flow data is as of March 31, 2022. Prices are as of June 30, 2022. Excludes financials.

\*April 1, 1992

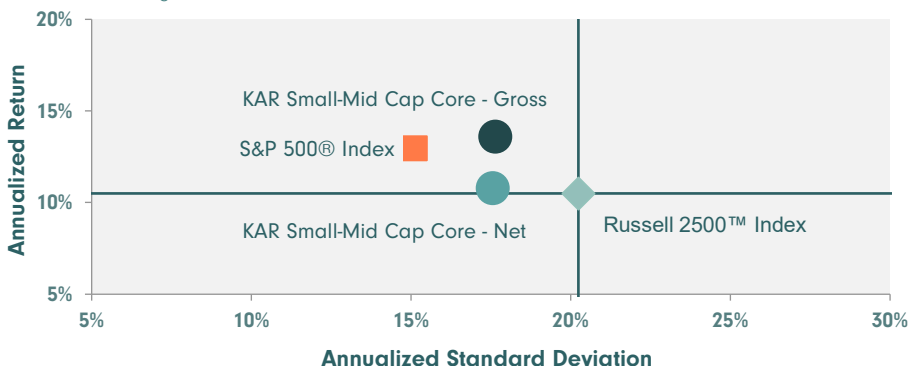
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. **Past performance is no guarantee of future results.** Returns could be reduced, or losses incurred, due to currency fluctuations.

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## Strong Risk-Adjusted Returns

Ten Years Ending June 30, 2022



## Historical Returns

	KAR Small-Mid Cap Core (gross)	KAR Small-Mid Cap Core (net) <sup>†</sup>	Russell 2500™ Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of June 30, 2022			
2 <sup>nd</sup> Quarter	(16.75)	(17.41)	(16.98)
Year to Date	(27.68)	(28.82)	(21.81)
One Year	(22.89)	(25.23)	(21.00)
Three Years	9.95	6.72	5.91
Five Years	12.23	8.93	7.04
Seven Years	11.99	8.82	7.16
Ten Years	13.60	10.80	10.49
Inception*	11.30	8.44	10.08
<b>Annual Returns (%)</b>			
2021	20.90	17.38	18.18
2020	36.85	32.89	19.99
2019	40.90	36.84	27.77
2018	(5.23)	(8.05)	(10.00)
2017	19.77	16.28	16.81
2016	17.03	13.61	17.59
2015	5.76	4.10	(2.90)
2014	9.25	7.37	7.07
2013	31.04	29.07	36.80
2012	9.25	7.55	17.88
2011	8.43	6.02	(2.51)
2010	20.23	17.70	26.71
2009	31.12	28.86	34.39
2008	(29.90)	(31.33)	(36.79)
2007	0.26	(1.37)	1.38
2006	14.04	11.75	16.17
2005	3.24	0.14	8.11
2004	13.69	10.26	18.29
2003	25.54	21.91	45.51
2002	(17.31)	(19.84)	(17.80)
2001	4.57	1.53	1.22
2000	23.47	19.85	4.27
1999	7.02	3.93	24.14
1998	20.98	17.42	0.38
1997	21.00	17.45	24.36
1996	26.98	23.22	19.03
1995	18.57	15.07	31.70
1994	2.75	(0.26)	(1.05)
1993	20.00	16.54	16.55
1992 <sup>  </sup>	9.65	7.25	11.36

\*April 1, 1992

<sup>†</sup>All periods less than one year are total returns and are not annualized. Returns are preliminary.

<sup>‡</sup>Net of all fees and expenses. Assumes a 3% annual fee.

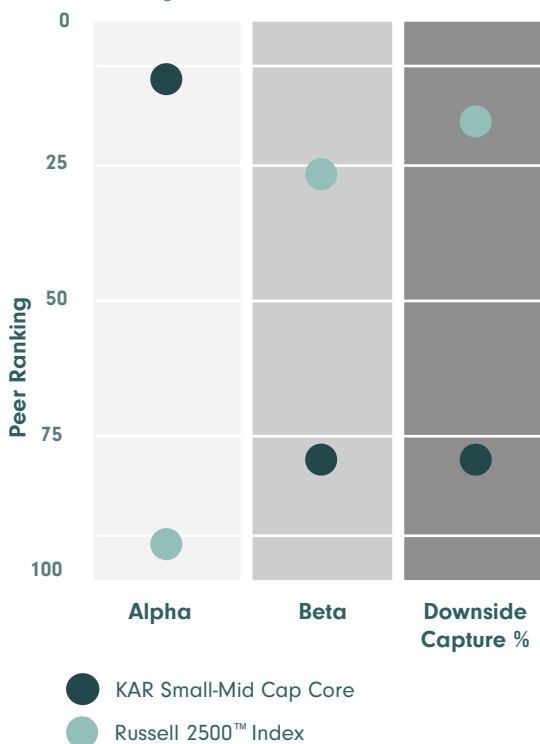
<sup>§</sup>Performance statistics are based on gross of fee returns.

<sup>||</sup>Performance calculations are for the nine months ended December 31, 1992.

This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Returns for the Kayne Anderson Rudnick composite are preliminary. All periods less than one year are total returns and are not annualized. For periods

## Peer Chart

Ten Years Ending June 30, 2022



## Performance Statistics

Ten Years Ending June 30, 2022

	KAR Small-Mid Cap Core <sup>§</sup>	Russell 2500™ Index
Annualized Standard Deviation	17.64	20.24
Alpha	4.59	0.00
Beta	0.81	1.00
Sharpe Ratio	0.75	0.49
R-Squared	86.15	100.00

**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.

prior to July 1, 2000, the Small-Mid Cap Core composite calculations have been linked to the firm's Small Cap Core composite performance, which represents all taxable and nontaxable, fully discretionary Small Cap Core Portfolios (including cash) under management for at least one full quarter. Beginning on July 1, 2000, only Small-Mid Cap Core Portfolios are included in the composite. For further details on the composite, please see the disclosure statement in this presentation. The Small-Mid Cap Core Universe includes all managers categorized in the small-mid cap core asset class by eVestment. Data is obtained from FactSet Research Systems and is assumed to be reliable. **Past performance is no guarantee of future results.** Returns could be reduced, or losses incurred, due to currency fluctuations.

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### Disclosure

Year	Composite Pure Gross Return* (%)	Composite Net Return (%)	Russell 2500™ Index Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Number of Accounts	Internal Dispersion (%)	Composite Assets (\$ Millions)	Firm Assets (\$ Millions)
2011	8.43	6.02	(2.51)	N/A	N/A	53	0.78	337	5,232
2012	9.25	7.55	17.88	15.22	19.24	44	0.62	422	6,545
2013	31.04	29.07	36.80	12.17	15.85	39	0.36	362	7,841
2014	9.25	7.37	7.07	10.13	11.84	35	0.16	373	7,989
2015	5.76	4.10	(2.90)	12.17	12.59	30	0.19	378	8,095
2016	17.03	13.61	17.59	12.62	13.86	30	0.38	369	9,989
2017	19.77	16.28	16.81	11.16	12.31	32	0.26	518	14,609
2018	(5.23)	(8.05)	(10.00)	13.27	14.30	24	0.17	618	17,840
2019	40.90	36.84	27.77	14.85	14.79	28	0.51	1,117	25,685
2020	36.85	32.89	19.99	21.37	24.55	30	0.33	2,556	39,582

\*Pure gross returns are supplemental to net returns.

The Russell 2500™ Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.

KAR (as defined below) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. KAR has been independently verified for the period from January 1, 1999 through December 31, 2020.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis.

The Small-Mid Cap Core Wrap Composite has had a performance examination for the period from January 1, 1999 through December 31, 2020. The verification and performance examination reports are available upon request.

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income strategies focusing exclusively on securities the firm defines as high quality.

The composite includes all fully discretionary Small-Mid Cap Core Wrap Portfolios. Small-Mid Cap Core Wrap Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2500™ Index, that have market control, rising free cash flow, shareholder-oriented management, strong consistent profit growth and low-debt balance sheets. For comparison purposes, the composite is measured against the Russell 2500™ Index. The Russell 2500™ Index is a market capitalization-weighted index of the 2,500 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total-return basis with dividends reinvested. Benchmark returns are not covered by the report of the independent verifiers. The inception date of the composite is April 1992. The composite was created in July 2000. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The firm's list of composite descriptions, list of broad distribution pooled fund and the list of limited distribution pooled funds descriptions are available upon request.

Beginning on January 1, 2006, sub-advisory wrap fee portfolios are also included in composite results. Each sub-advisory relationship is included in the composite as one account. All portfolios included in this composite for all periods are wrap portfolios.

The standard wrap fee schedule in effect is 3.00% on total assets. Actual management fees charged may vary

depending on applicable fee schedules and portfolio size, among other things. Additional information may be found in Part IIA of Form ADV, which is available on request. The performance information is supplied for reference. Past performance is no guarantee of future results. Results will vary among accounts. The U.S. dollar is the currency used to express performance. Performance results include the reinvestment of all income. Prior to December 31, 2005, net annual returns are calculated by deducting 1/4th of an assumed maximum annual wrap fee of 3% from the gross returns on a quarterly basis. Beginning January 1, 2006, net annual returns are calculated using actual fees incurred. If no fee data is provided by wrap sponsors, the maximum annual wrap fee of 3% is used to calculate net of fee performance. Beginning January 1, 2016, net annual returns are calculated by deducting 1/12th of an assumed maximum annual wrap fee of 3% on a monthly basis. Wrap fees include all charges for trading costs, portfolio management, custody and other administrative expenses.

Internal dispersion is calculated using the asset-weighted standard deviation of annual gross returns for accounts in the composite for the entire year. For those years when less than five accounts were included for the full year, no dispersion measure is presented. The three-year annualized ex-post standard deviation measures the variability of the composite (using pure gross returns) and the benchmark for the 36-month period, is presented starting 2012 because prior to January 1, 2010, the composite return was calculated quarterly and 36 monthly returns are not available.