

## Small-Mid Cap Core Portfolio

Fourth Quarter 2023 | Managed Accounts

### Portfolio Review

The Small-Mid Cap Core portfolio underperformed the Russell 2500 Index in the fourth quarter. Poor stock selection in financials and consumer discretionary detracted from performance. Good stock selection in industrials and an underweight in energy contributed positively to performance.

The biggest contributors to performance during the quarter were Equifax and Thor Industries.

- Equifax's shares outperformed due to market optimism that interest rates have peaked as the Federal Reserve paused interest rate hikes in the beginning of November. Of the U.S. credit bureaus, Equifax has greater exposure to the mortgage markets which have been severely depressed due to the high interest rate environment, so the signaling of rate cuts drove a strong rally in shares in the quarter.
- Thor Industries continues to feel the effects of the significant downdraft in industry-wide RV sales. However, the business continues to operate largely as an assembler and not a vertical manufacturer, which helps the business continue to generate free cash flow, even as RV sales decline. Also, the business's valuation multiple expansion has aided the performance of the stock.
- Other top contributors included Lennox International, Fair Isaac, and Cooper Companies.

The biggest detractors from performance during the quarter were LPL Financial and Choice Hotels International.

- LPL Financial reported a quarter of organic asset growth driven by market share gains, while profit margins were down due to seasonality and expense recognition timing. The company earns a significant portion of its profit from net interest earned on client operational cash balances, and the expectation of lower interest rates negatively influenced expectations for the company's future profit trajectory. This caused the shares to underperform.
- We believe Choice Hotels underperformance is likely related to its hostile bid to acquire another hotel chain.
- Other bottom detractors included Interactive Brokers Group, SiteOne Landscape Supply, and Exponent.

### Purchases and Sales

During the quarter, we purchased Zurn Elkay Water Solutions, a leading provider of specification-driven, highly engineered, and mission-critical water management solutions to new construction and retrofit construction projects. There were no complete sales from the portfolio.

### 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:** Core  
**Index:** Russell 2500™  
**Portfolio Inception:** 1992  
**Portfolio Assets:** \$18,577.8 M\*  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

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

### Top Five Holdings

As of December 31, 2023

Company	Percent of equity (%)
Bentley Systems	5.2
POOLCORP	4.8
Cooper Companies	4.4
Lennox International	4.4
Nordson	4.1
<b>Total</b>	<b>23.0</b>

\* Figures in USD

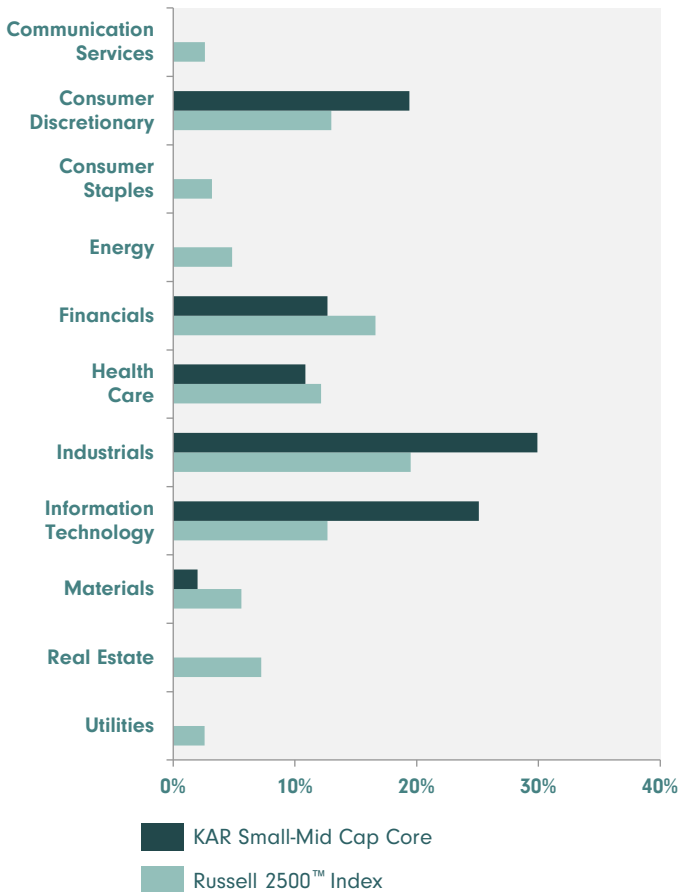
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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

<b>Development of KAR 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>
<b>Higher Quality   Stronger, More Consistent Growth   Better Value</b>			

## 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 Core	Russell 2500™ Index
<b>Quality</b>		
Return on Equity—Past 5 Years	21.8%	13.3%
Debt/EBITDA*	1.6 x	2.3 x
Earnings Variability—Past 10 Years	43.0%	72.8%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	16.4%	14.2%
Earnings Per Share Growth—Past 10 Years	12.9%	10.3%
Capital Generation—{ROE x (1-Payout)}	17.4%	10.4%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	35.9 x	31.5 x
Dividend Yield	0.7%	1.5%
Free Cash Flow Yield†	3.5%	3.4%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$14.7 B	\$6.7 B
Largest Market Cap—3-Year Avg.	\$35.1 B	\$26.6 B
Annualized Standard Deviation—Since Inception‡	16.3%	19.8%

\*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.

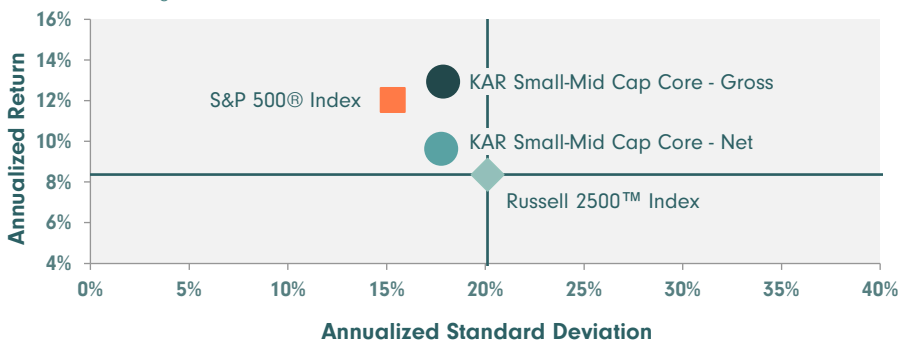
‡April 1, 1992. Standard deviation for the KAR strategy is based on net-of-fee returns. This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other 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.

# Small-Mid Cap Core Portfolio

Fourth Quarter 2023 | Managed Accounts

## Risk-Return Analysis

Ten Years Ending December 31, 2023



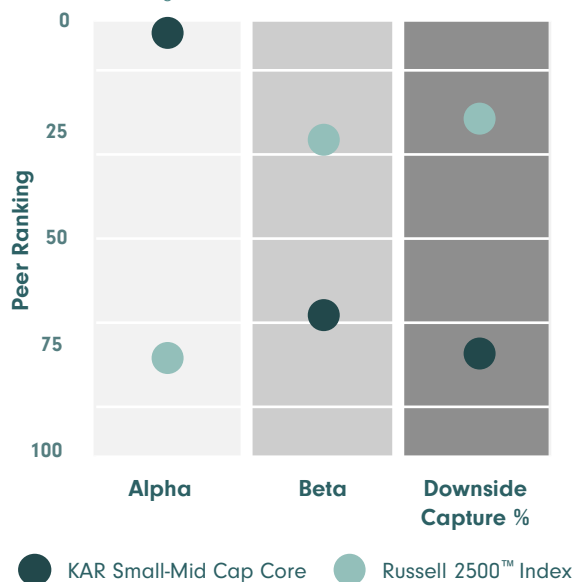
## Historical Returns

	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 December 31, 2023			
4 <sup>th</sup> Quarter	12.23	11.42	13.35
One Year	23.87	20.26	17.42
Three Years	4.53	1.45	4.24
Five Years	17.11	13.68	11.67
Seven Years	13.99	10.64	8.98
Ten Years	12.95	9.64	8.36
Inception*	11.67	8.41	10.29
<b>Annual Returns (%)</b>			
2023	23.87	20.26	17.42
2022	(23.73)	(26.04)	(18.37)
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	2.65	(2.90)
2014	9.25	6.04	7.07
2013	31.04	27.25	36.80
2012	9.25	6.04	17.88
2011	8.43	5.24	(2.51)
2010	20.23	16.73	26.71
2009	31.12	27.46	34.39
2008	(29.90)	(32.18)	(36.79)
2007	0.26	(2.71)	1.38
2006	14.04	10.76	16.17
2005	3.24	0.20	8.11
2004	13.69	10.42	18.29
2003	25.54	22.01	45.51
2002	(17.31)	(19.90)	(17.80)
2001	4.57	1.48	1.22
2000	23.47	19.99	4.27
1999	7.02	3.89	24.14
1998	20.98	17.54	0.38
1997	21.00	17.57	24.36
1996	26.98	23.43	19.03
1995	18.57	15.20	31.70
1994	2.75	(0.28)	(1.05)
1993	20.00	16.60	16.55
1992 <sup>‡</sup>	9.65	7.28	11.36

**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. **Technology Concentration:** Because the portfolio is presently heavily weighted in the technology sector, it will be impacted by that sector's performance more than a portfolio with broader sector diversification. **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.

## Peer Chart

Ten Years Ending December 31, 2023



The eVestment Small Mid-Cap Core Universe includes 54 managers categorized in the small-mid cap asset class by eVestment. KAR does not pay any fees to be included in the eVestment Small Mid-Cap Core Universe or for the ranking itself. KAR does pay fees for the use of certain products and services provided by eVestment. eVestment rankings are based on gross of fee returns. Gross of fee returns will be reduced by investment management fees and other expenses that may be incurred in the management of the account. Management fees are described in KAR's Form ADV Part 2A, which is available upon request and can also be found at <https://kayne.com/wp-content/uploads/ADV-Part-2A.pdf>. Returns could be reduced or losses incurred due to currency fluctuations. **Past performance is no guarantee of future results.**

## Performance Statistics

Ten Years Ending December 31, 2023

	KAR Small-Mid Cap Core (gross)	KAR Small-Mid Cap Core (net)	Russell 2500™ Index
Alpha	5.45	2.33	0.00
Sharpe Ratio	0.66	0.47	0.35
Information Ratio	0.61	0.17	N/A
Beta	0.82	0.82	1.00
Downside Capture	77.41	85.65	100.00
Tracking Error	7.52	7.53	N/A

\*April 1, 1992

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

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

<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 final. All periods less than one year are total returns and are not annualized. For periods 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. 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.

# Small-Mid Cap Core (Wrap) Composite

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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)
2013	31.04	27.25	36.80	12.17	15.85	39	0.36	362	7,841
2014	9.25	6.04	7.07	10.13	11.84	35	0.16	373	7,989
2015	5.76	2.65	(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
2021	20.90	17.38	18.18	19.30	22.80	42	0.29	4,773	47,269
2022	(23.73)	(26.04)	(18.37)	23.35	25.52	52	0.08	3,922	33,531

\*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, 2022.

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, 2022. The verification and performance examination reports are available upon request.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Kayne Anderson Rudnick Investment Management, LLC ("KAR"), a wholly owned subsidiary of Virtus Investment Partners, Inc., is a registered investment advisor under the Investment Advisers Act of 1940. Registration of an Investment Advisor does not imply

any level of skill or training. KAR manages a variety of equity and fixed-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 2A 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. Pure gross returns do not reflect the deduction of any expenses, including trading costs. 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.

### GLOSSARY

**Standard Deviation:** Measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk. **Alpha:** A risk-adjusted measure of an investment's excess return relative to a benchmark. **Sharpe Ratio:** A risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. **Information Ratio:** The information ratio (IR) is a measurement of portfolio returns beyond the returns of a benchmark, usually an index, compared to the volatility of those returns. **Beta:** A quantitative measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. **Downside Capture Ratio:** A statistical measure of an investment manager's overall performance in down-markets. It is used to evaluate how well an investment manager performed relative to an index during periods when that index has dropped.

**Tracking Error:** The divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark. It is reported as a standard deviation percentage difference, which reports the difference between the return an investor receives and that of the benchmark they were attempting to imitate.

### INDEX DEFINITION

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. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.