

## Small Cap Sustainable Growth Portfolio

Second Quarter 2021 | Managed Accounts



### Portfolio Review

The Small Cap Sustainable Growth portfolio outperformed the Russell 2000 Growth Index in the second quarter. Good stock selection in consumer discretionary and good stock selection and an overweight in information technology contributed positively to performance. Poor stock selection in communication services and consumer staples detracted from performance.

The biggest contributors to performance during the quarter were Bill.com and Fox Factory. Bill.com continues to report healthy topline growth based on the strong demand for small business automation. It is also benefiting from the flywheel effect of encouraging suppliers onto the platform. We believe progress on profitability continues as the company scales its business. Fox Factory continues to benefit from consumers renewed and/or newly formed interest in outdoor activities, such as mountain biking and off-roading, that was ignited during the COVID-19 pandemic. Other top contributors included AutoTrader Group, Avalara, and Rightmove.

The biggest detractors to performance were Autohome and Interactive Brokers Group. Autohome's shares fell due to recent gains in market share made by a competitor, uncertainty with a new CEO, weakening new car sales in China, and intensified regulatory scrutiny of internet companies in the country. Interactive Brokers Group reported a quarter of strong growth both in sales and profits, but we believe the stock sold off in the quarter as market participants forecast near-term periods with lower market volatility that could be a headwind to the brokerage business's commission revenue. Other bottom contributors included AAON, nCino, and Ollie's Bargain Outlet.

### Purchases and Sales

During the quarter, there were no new purchases or complete sales from the portfolio

### Outlook

Despite elevated valuations, we believe investors should stay the course and remain invested. Price/earnings (PE) ratios are higher than normal, but this is not unusual when earnings are rapidly recovering and corporate earnings were strong in the first quarter. Ironically, PE ratios may decline as the earnings recovery unfolds. However, as long as earnings growth exceeds multiple contractions, we believe returns should be favorable for investors. As always, our focus remains on high quality businesses regardless of the current economic regime. We believe competitive protections and differentiation are the key investment metrics that matter the most over the long term.

### Portfolio Highlights

**Style:** Small Cap  
**Sub-Style:** Growth  
**Index:** Russell 2000® Growth  
**Portfolio Inception:** 1998  
**Portfolio Assets:** \$9,821.2 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

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

### Top Five Holdings

As of June 30, 2021

| Company                | Percent of equity (%) |
|------------------------|-----------------------|
| Fox Factory            | 9.5                   |
| Bill.com               | 8.8                   |
| Ollie's Bargain Outlet | 6.3                   |
| Auto Trader            | 6.0                   |
| Rightmove              | 5.2                   |
| <b>Total</b>           | <b>35.8</b>           |

†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

| Development of High-Quality Universe  | Proprietary Fundamental Research  | Portfolio Construction   | Sell Discipline   |
|---|---|--|---|
| <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><br><b>Portfolio Upgrade</b><br><b>Acquisition Activity</b><br><b>Negative Company or Industry Changes</b> |

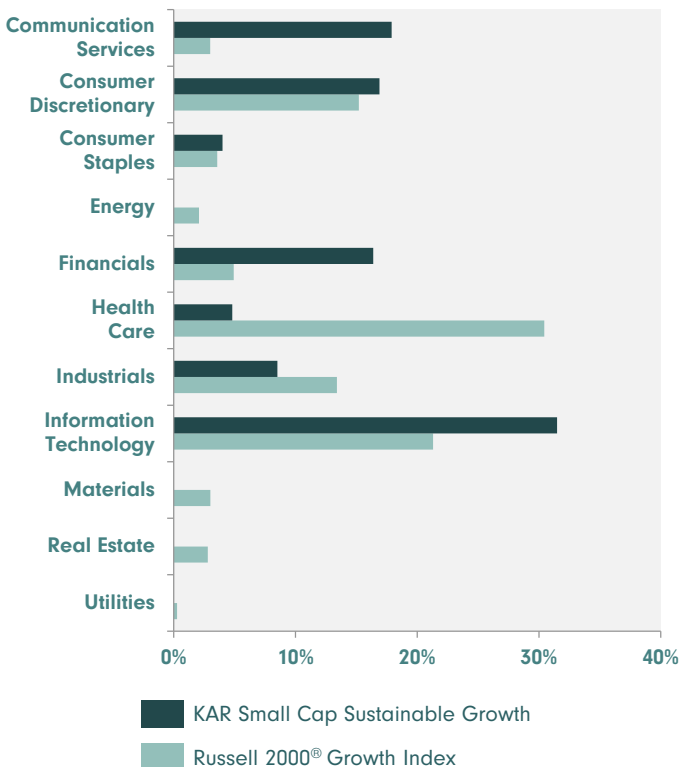
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of June 30, 2021



## Portfolio Characteristics

As of June 30, 2021

|  | KAR Small Cap Sustainable Growth | Russell 2000® Growth Index |
|--|----------------------------------|----------------------------|
| <b>Quality</b>                                 |                                  |                            |
| Return on Equity—Past 5 Years                  | 21.0%                            | 7.5%                       |
| Total Debt/EBITDA                              | 2.2 x                            | 6.2 x                      |
| Earnings Variability—Past 10 Years             | 28.1%                            | 81.5%                      |
| <b>Growth</b>                                  |                                  |                            |
| Earnings Per Share Growth—Past 10 Years        | 13.6%                            | 7.4%                       |
| Capital Generation—{ROE x (1-Payout)}          | 17.8%                            | 6.6%                       |
| <b>Value</b>                                   |                                  |                            |
| P/E Ratio—Trailing 12 Months                   | 63.5 x                           | -448.2 x                   |
| Free Cash Flow Yield†                          | 2.0%                             | 1.6%                       |
| <b>Market Characteristics</b>                  |                                  |                            |
| \$ Weighted Average Market Cap—3-Year Avg.     | \$6.9 B                          | \$3.0 B                    |
| Largest Market Cap—3-Year Avg.                 | \$19.0 B                         | \$10.9 B                   |
| Annualized Standard Deviation—Since Inception‡ | 20.7%                            | 25.4%                      |

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.

†Free cash flow data is as of March 31, 2021. Prices are as of June 30, 2021. Excludes financials. ‡January 1, 1998

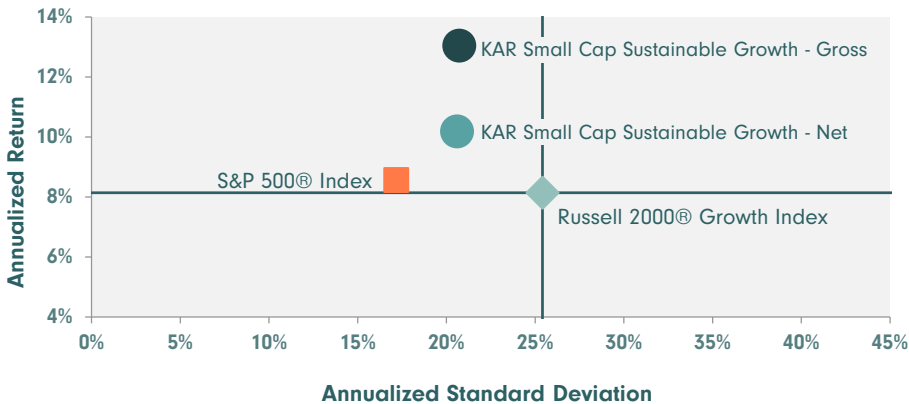
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics.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

# Small Cap Sustainable Growth Portfolio

## Second Quarter 2021 | Managed Accounts

### Strong Risk-Adjusted Returns

Inception\* to June 30, 2021



### Historical Returns

|  | KAR Small Cap Sustainable Growth (gross) | KAR Small Cap Sustainable Growth (net) <sup>‡</sup> | Russell 2000 <sup>®</sup> Growth Index |
|--|--|---|--|
|--|--|---|--|

#### Annualized Returns (%)<sup>†</sup>

As of June 30, 2021

|                         |       |       |       |
|-------------------------|-------|-------|-------|
| 2 <sup>nd</sup> Quarter | 4.24  | 3.47  | 3.92  |
| Year to Date            | 2.82  | 1.29  | 8.98  |
| One Year                | 27.56 | 23.86 | 51.36 |
| Three Years             | 21.67 | 18.12 | 15.94 |
| Five Years              | 29.78 | 26.02 | 18.76 |
| Seven Years             | 23.74 | 20.42 | 13.11 |
| Ten Years               | 21.18 | 18.14 | 13.52 |
| Inception*              | 13.04 | 10.18 | 8.14  |

#### Annual Returns (%)

|      |         |         |         |
|------|---------|---------|---------|
| 2020 | 39.38   | 35.36   | 34.63   |
| 2019 | 39.46   | 35.44   | 28.48   |
| 2018 | 12.54   | 9.24    | (9.31)  |
| 2017 | 41.79   | 37.72   | 22.17   |
| 2016 | 26.59   | 22.92   | 11.32   |
| 2015 | 1.91    | (0.07)  | (1.38)  |
| 2014 | 5.16    | 3.19    | 5.60    |
| 2013 | 40.55   | 37.73   | 43.30   |
| 2012 | 12.38   | 10.05   | 14.59   |
| 2011 | 18.59   | 15.50   | (2.91)  |
| 2010 | 15.44   | 13.07   | 29.09   |
| 2009 | 39.32   | 36.77   | 34.47   |
| 2008 | (35.73) | (34.93) | (38.54) |
| 2007 | (0.61)  | (2.14)  | 7.05    |
| 2006 | 15.47   | 13.12   | 13.35   |
| 2005 | 2.71    | (0.39)  | 4.15    |
| 2004 | 13.42   | 10.02   | 14.31   |
| 2003 | 39.90   | 35.88   | 48.54   |
| 2002 | (23.82) | (26.14) | (30.26) |
| 2001 | 0.48    | (2.42)  | (9.23)  |
| 2000 | 6.28    | 3.13    | (22.43) |
| 1999 | 31.19   | 27.42   | 43.09   |
| 1998 | 3.33    | 0.20    | 1.23    |

\*January 1, 1998

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

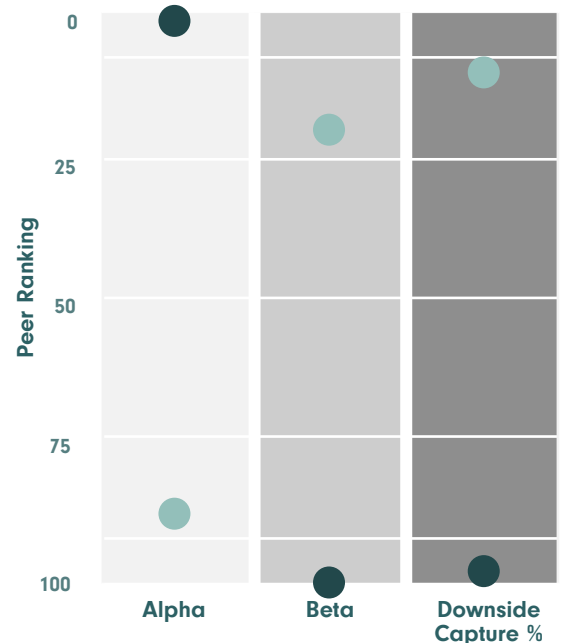
<sup>‡</sup>Net of all fees and expenses. Assumes a 3% annual fee.

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

This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Returns of the Kayne Anderson Rudnick composite are preliminary and gross of fees unless otherwise specified. For further details on the composite, please see the disclosure statement in this presentation. The Small Cap Growth Universe includes all managers categorized in the small cap growth 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.**

### Peer Comparison Chart

Ten Years Ending June 30, 2021



- KAR Small Cap Sustainable Growth
- Russell 2000<sup>®</sup> Growth Index

### Performance Statistics

Inception\* to June 30, 2021

|                               | KAR Small Cap Sustainable Growth <sup>§</sup> | Russell 2000 <sup>®</sup> Growth Index |
|-------------------------------|---|--|
| Annualized Standard Deviation | 20.72   | 25.41                                  |
| Alpha                         | 6.07  | 0.00                                   |
| Beta                          | 0.73  | 1.00                                   |
| Sharpe Ratio                  | 0.54  | 0.25                                   |
| R-Squared                     | 79.88   | 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. **Foreign Investing:** Investing in foreign securities subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market 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.

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#### Disclosure

| Year | Composite Pure Gross Return* (%) | Composite Net Return (%) | Russell 2000™ Growth Index Return (%) | Composite 3-Yr Std Dev (%) | Benchmark 3-Yr Std Dev (%) | Percentage of Wrap-Fee Accounts (%) | Number of Accounts | Internal Dispersion (%) | Composite Assets (\$ Millions) | Firm Assets (\$ Millions) |
|------|----------------------------------|--------------------------|---------------------------------------|----------------------------|----------------------------|-------------------------------------|--------------------|-------------------------|--------------------------------|---------------------------|
| 2010 | 15.44                            | 13.07                    | 29.09                                 | N/A                        | N/A                        | 100                                 | 12                 | 0.55                    | 63                             | 4,729                     |
| 2011 | 18.59                            | 15.50                    | (2.91)                                | N/A                        | N/A                        | 100                                 | 13                 | 1.04                    | 12                             | 5,232                     |
| 2012 | 12.38                            | 10.05                    | 14.59                                 | 15.36                      | 21.01                      | 100                                 | 32                 | 0.98                    | 31                             | 6,545                     |
| 2013 | 40.55                            | 37.73                    | 43.30                                 | 11.96                      | 17.52                      | 100                                 | 26                 | 0.58                    | 23                             | 7,841                     |
| 2014 | 5.16                             | 3.19                     | 5.60                                  | 11.97                      | 14.02                      | 100                                 | 23                 | 0.30                    | 20                             | 7,989                     |
| 2015 | 1.91                             | (0.07)                   | (1.38)                                | 13.80                      | 15.16                      | 100                                 | 24                 | 0.25                    | 36                             | 8,095                     |
| 2016 | 26.59                            | 22.92                    | 11.32                                 | 14.67                      | 16.91                      | 100                                 | 24                 | 0.38                    | 53                             | 9,989                     |
| 2017 | 41.79                            | 37.72                    | 22.17                                 | 12.94                      | 14.80                      | 100                                 | 26                 | 0.41                    | 119                            | 14,609                    |
| 2018 | 12.54                            | 9.24                     | (9.31)                                | 14.68                      | 16.69                      | 100                                 | 48                 | 0.52                    | 269                            | 17,840                    |
| 2019 | 39.46                            | 35.44                    | 28.48                                 | 15.20                      | 16.60                      | 100                                 | 81                 | 0.26                    | 370                            | 25,685                    |

\*Pure gross returns are supplemental to net returns.

The Russell 2000® Growth 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, 2019.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The Small Cap Sustainable Growth Wrap Composite has been examined for the period from January 1, 1999 through December 31, 2019. The verification and performance examination reports are available upon request.

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 Cap Sustainable Growth Wrap Portfolios. Small Cap Sustainable Growth Wrap Portfolios are invested in equity securities with market capitalizations in line with the Russell 2000® Growth 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 2000® Growth Index. The Russell 2000® Growth Index is a market capitalization-weighted index of growth-oriented stocks of the 2,000 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 composite was created in July 2003. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations 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. Prior to January 1, 2011, accounts that experienced a significant cash flow, defined as aggregate flows that exceeded 25% of the account's beginning of period market value, were temporarily removed from the composite. Prior to December 31, 2010, the composite minimum was \$100,000.

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. Pure gross returns do not reflect the deduction of any expenses, including trading costs. Prior to December 31, 2005, net annual returns are calculated by deducting 1/4th of an assumed maximum annual wrap fee of 3% 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, which 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.