

## Small Cap Sustainable Growth Portfolio

Second Quarter 2022 | Managed Accounts



Manager of the Decade  
(2016–2017, 2020–2021)

### 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 financials contributed positively to performance. Poor stock selection in information technology and an underweight in utilities detracted from performance.

The biggest contributors to performance during the quarter were Ollie's Bargain Outlet and Autohome. Ollie's Bargain Outlet's shares appreciated due to management's comments about the quality of emerging closeout opportunities, and market participant assessment of the opportunity ahead for the company to capture consumer demand in an inflationary and potentially slowing economy. Autohome reported results that beat low expectations due to Chinese lockdowns affecting local auto demand combined with global supply chain disruptions affecting auto production. Market participants began anticipating a recovery in the Chinese auto market in the second half of the year as the lockdown and supply chain headwinds ameliorate. Other top contributors included Grocery Outlet, The Chefs' Warehouse and U.S. Physical Therapy.

The biggest detractors from performance during the second quarter were Bill.com and Auto Trader. Bill.com has experienced several quarters of robust organic sales growth and gross margin expansion, but the company's shares declined alongside a broader software selloff. While Auto Trader retains its dominant share of user engagement in the U.K. digital auto market and reported revenue and profit growth, the company's shares declined due to market participant concerns over the potential softening of used car demand in the U.K. Other bottom contributors included Duck Creek Technologies, Fox Factory and Rightmove.

### Purchases and Sales

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

### 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.

### Portfolio Highlights

**Style:** Small Cap  
**Sub-Style:** Growth  
**Index:** Russell 2000® Growth  
**Portfolio Inception:** 1998  
**Portfolio Assets:** \$5,957.0 M\*  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	36
<b>Todd Bailey, CFA</b> Portfolio Manager + Senior Research Analyst	23
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	27
<b>Julie Biel, CFA</b> Senior Research Analyst	14
<b>Julie Kutasov</b> Senior Research Analyst	21
<b>Craig Stone</b> Senior Research Analyst	33
<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 (%)
Ryan Specialty	8.1
Fox Factory	6.4
Auto Trader	5.7
Ollie's Bargain Outlet	5.6
Rightmove	5.3
<b>Total</b>	<b>31.1</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>

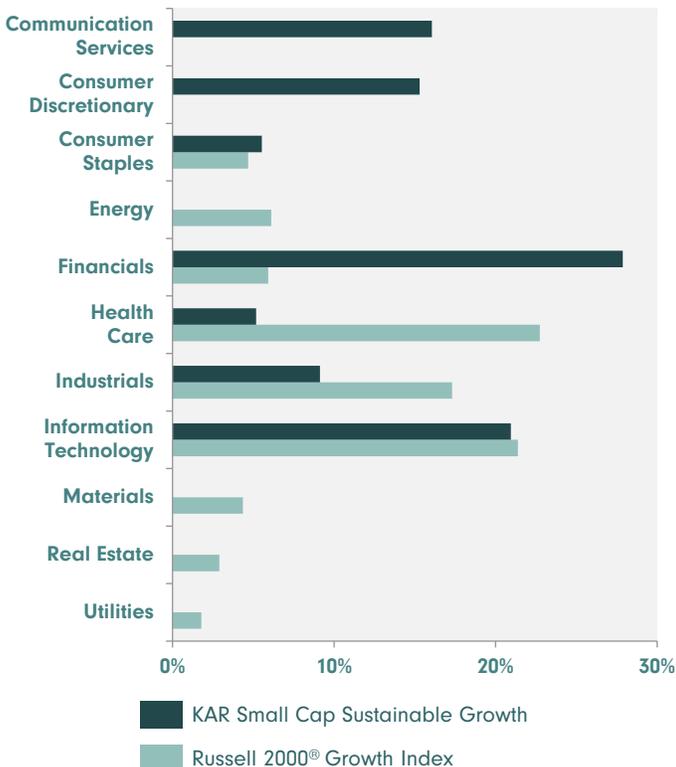
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of June 30, 2022



## Portfolio Characteristics

As of June 30, 2022

	KAR Small Cap Sustainable Growth	Russell 2000 Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	19.5%	10.4%
Total Debt/EBITDA	3.8 x	4.0 x
Earnings Variability—Past 10 Years	28.9%	80.5%
<b>Growth</b>		
Earnings Per Share Growth—Past 10 Years	16.9%	11.1%
Capital Generation—{ROE x (1-Payout)}	15.9%	9.0%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	41.6 x	66.3 x
Free Cash Flow Yield <sup>†</sup>	0.7%	1.4%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$7.5 B	\$3.3 B
Largest Market Cap—3-Year Avg.	\$22.6 B	\$12.4 B
Annualized Standard Deviation—Since Inception <sup>‡</sup>	20.9%	25.5%

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

<sup>‡</sup>January 1, 1998

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.

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 Cap Sustainable Growth Portfolio

## Second Quarter 2022 | Managed Accounts

### Strong Risk-Adjusted Returns

Inception\* to June 30, 2022



### Historical Returns

	KAR Small Cap Sustainable Growth (gross)	KAR Small Cap Sustainable Growth (net) <sup>‡</sup>	Russell 2000 <sup>®</sup> Growth Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of June 30, 2022			
2 <sup>nd</sup> Quarter	(13.59)	(14.27)	(19.25)
Year to Date	(26.81)	(27.96)	(29.45)
One Year	(24.76)	(27.04)	(33.43)
Three Years	4.71	1.62	1.40
Five Years	15.34	11.96	4.80
Seven Years	16.54	13.21	4.96
Ten Years	17.23	14.20	9.30
Inception*	11.18	8.34	6.02

Annual Returns (%)	KAR Small Cap Sustainable Growth	KAR Small Cap Sustainable Growth	Russell 2000 <sup>®</sup> Growth Index
2021	5.69	2.58	2.83
2020	39.37	35.35	34.63
2019	39.46	35.45	28.48
2018	12.53	9.23	(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	(33.73)	(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.

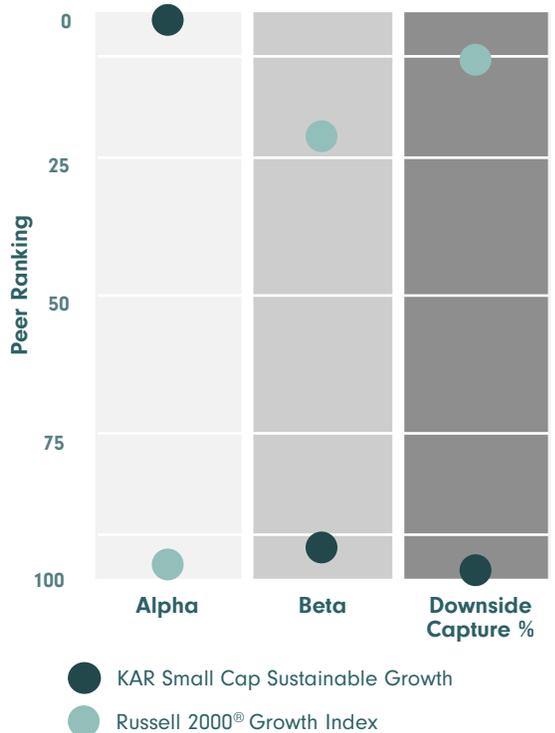
<sup>‡</sup>Net of all fees and expenses. Assumes a 3% annual fee.

<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.** Returns could be reduced, or losses incurred, due to currency fluctuations.

### Peer Comparison Chart

Ten Years Ending June 30, 2022



### Performance Statistics

Inception\* to June 30, 2022

	KAR Small Cap Sustainable Growth <sup>§</sup>	Russell 2000 <sup>®</sup> Growth Index
Annualized Standard Deviation	20.94	25.52
Alpha	5.82	0.00
Beta	0.74	1.00
Sharpe Ratio	0.45	0.17
R-Squared	80.44	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 (%)	Number of Accounts	Internal Dispersion (%)	Composite Assets (\$ Millions)	Firm Assets (\$ Millions)
2011	18.59	15.50	(2.91)	N/A	N/A	13	1.04	12	5,232
2012	12.38	10.05	14.59	15.36	21.01	32	0.98	31	6,545
2013	40.55	37.73	43.30	11.96	17.52	26	0.58	23	7,841
2014	5.16	3.19	5.60	11.97	14.02	23	0.30	20	7,989
2015	1.91	(0.07)	(1.38)	13.80	15.16	24	0.25	36	8,095
2016	26.59	22.92	11.32	14.67	16.91	24	0.38	53	9,989
2017	41.79	37.72	22.17	12.94	14.80	26	0.41	119	14,609
2018	12.54	9.24	(9.31)	14.68	16.69	48	0.52	269	17,840
2019	39.46	35.45	28.48	15.20	16.60	81	0.26	370	25,685
2020	39.38	35.36	34.63	20.75	25.46	89	0.52	535	39,582

\*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, 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 Cap Sustainable Growth 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.

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 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 inception date of the composite is January 1998. The composite was created in July 2003. 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. 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 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.