

## Small Cap Sustainable Growth Portfolio

Third Quarter 2023 | Managed Accounts

### Portfolio Review

The Small Cap Sustainable Growth portfolio outperformed the Russell 2000 Growth Index in the third quarter. Good stock selection and an overweight in financials and good stock selection in information technology contributed positively to performance. An underweight in energy and poor stock selection and an underweight in industrials detracted from performance.

The biggest contributors to performance during the quarter were Morningstar and Ollie's Bargain Outlet.

- Morningstar reported strong growth in license-based software revenues, while cyclical market-driven headwinds continued to impact the company's asset- and transaction-based revenues. The market reacted favorably to the resilience of the company's recurring license-based revenues, causing the shares to outperform during the quarter.
- Ollie's Bargain Outlet reported sales growth and profit margin expansion during the quarter. The company's sales benefited from customers trading down to bargain concepts, while margins improved due to supply chain headwinds easing.
- Other top contributors included ServisFirst Bancshares, Ryan Specialty, and Goosehead Insurance.

The biggest detractors from performance during the quarter were U.S. Physical Therapy and Fox Factory.

- While U.S. Physical Therapy reported strong results from patient demand, the rates the company earned pressured results. Part of the issue is the reduced Medicare reimbursement and lack of sequestration benefit this quarter. The company is working to renegotiate commercial contracts, choosing to walk away from unprofitable business, which in our view is positive for long-term margin health. On the cost side, we believe the company is making strong progress without sacrificing quality.
- Fox Factory's recent underperformance is due to the Specialty Sports business segment's shrinkage as a bike inventory glut works its way throughout the outdoor recreation industry. Notably, while the inventory glut and the associated discounting does not directly impact Fox Factory, bike original equipment manufacturers are hesitant to build new bikes with excess inventory in the channel.
- Other bottom contributors included AAON, MarketAxess, and Omega Flex.

### Purchases and Sales

During the quarter, there were no new purchases. We sold Grocery Outlet as the company's differentiated business model comprising independent operators and closeout merchandise did not translate into attractive rates of return on capital amid the intensely competitive retail grocery industry.

### Outlook

Despite the pullback in equities this quarter, we believe many stocks are attractively positioned for future growth at reasonable prices. Investors in the short run have continued to pour money into money market accounts yielding over 5% but we believe this is likely to be a short-term opportunity as inflation eases over the next 12 months. Despite the slowing economy over the last two years, corporate earnings have been barely dented, even with COVID dislocations and dramatic interest rate increases. Therefore, we continue to believe the S&P 500 bottomed last October, which, in our view, should incentivize investors to stay put in these more uncertain and controversial times.

### Portfolio Highlights

**Style:** Small Cap  
**Sub-Style:** Growth  
**Index:** Russell 2000® Growth  
**Portfolio Inception:** 1998  
**Portfolio Assets:** \$5,260.1 M\*  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Todd Beiley, CFA</b> Portfolio Manager + Senior Research Analyst	24
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	28
<b>Julie Biel, CFA</b> Senior Research Analyst	15
<b>Julie Kutasov</b> Senior Research Analyst	22
<b>Craig Stone</b> Senior Research Analyst	33
<b>Chris Wright, CFA</b> Senior Research Analyst	11
<b>Adam Xiao, CFA</b> Senior Research Analyst	10
<b>Sean Dixon</b> Research Analyst	15
<b>Luke Longinotti</b> ESG Research Analyst	3
<b>Arthur Su, CFA</b> Research Analyst	8
<b>Clarissa Ali</b> Associate Research Analyst	<1

### Top Five Holdings

As of September 30, 2023

Company	Percent of equity (%)
Ryan Specialty	9.6
Fox Factory	7.6
Morningstar	7.2
Auto Trader	5.8
AAON	5.7
<b>Total</b>	<b>35.8</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.**

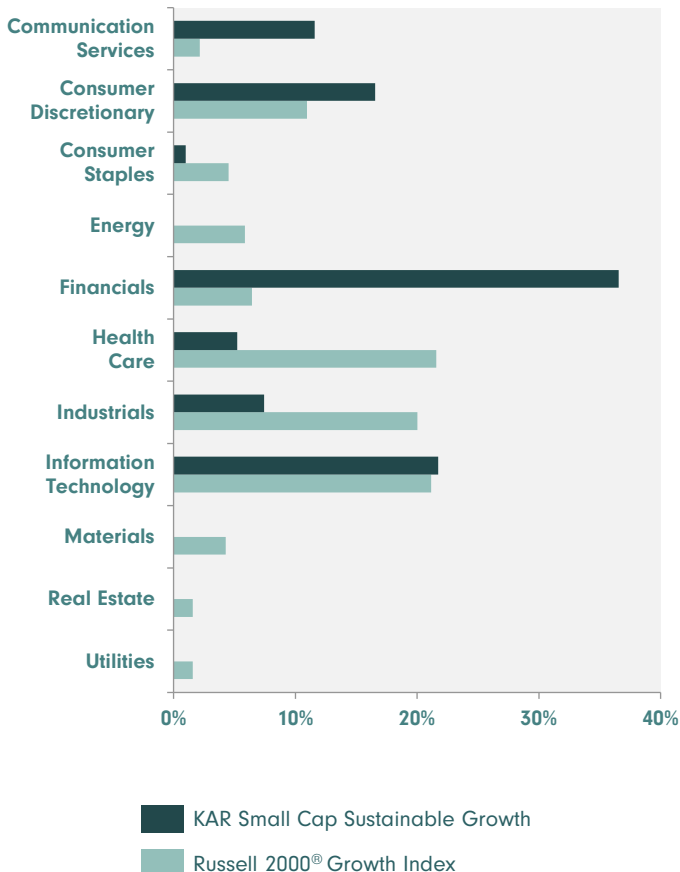
## Investment Process: Discovering Quality

Development of KAR High-Quality Universe	Proprietary Fundamental Research	Portfolio Construction	Sell Discipline
<p><b>Quantitative Screens</b></p> <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> <p><b>Other Resources</b></p> <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>	<p><b>Qualitative Analysis</b></p> <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> <p><b>Financial Analysis</b></p> <ul style="list-style-type: none"> <li>Evaluate basis for profitability, long-term growth potential, and ability to allocate capital appropriately</li> </ul> <p><b>Valuation Analysis</b></p> <ul style="list-style-type: none"> <li>Determine the current and potential value of the business</li> </ul>	<p><b>Position Weights</b></p> <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> <p><b>Sector Tolerances</b></p> <ul style="list-style-type: none"> <li>Seek broad diversification, but no sector constraints</li> </ul> <p><b>Non-U.S. Holdings</b></p> <ul style="list-style-type: none"> <li>Up to 20%</li> </ul> <p><b>Holding Period</b></p> <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> <p><b>Cash Levels</b></p> <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>	<p><b>Extended Valuation</b></p> <p><b>Portfolio Upgrade</b></p> <p><b>Acquisition Activity</b></p> <p><b>Negative Company or Industry Changes</b></p>

**Higher Quality | Stronger, More Consistent Growth | Better Value**

### Sector Diversification

As of September 30, 2023



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### Portfolio Characteristics

As of September 30, 2023

	KAR Small Cap Sustainable Growth	Russell 2000 <sup>®</sup> Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	18.0%	10.3%
Debt/EBITDA*	0.8 x	1.6 x
Earnings Variability—Past 10 Years	30.3%	83.4%
<b>Growth</b>		
Earnings Per Share Growth—Past 10 Years	12.4%	11.8%
Capital Generation—[ROE x (1-Payout)]	14.7%	9.2%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	45.3 x	74.1 x
Free Cash Flow Yield <sup>†</sup>	4.4%	1.9%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$6.8 B	\$3.5 B
Largest Market Cap—3-Year Avg.	\$20.9 B	\$13.2 B
Annualized Standard Deviation—Since Inception <sup>‡</sup>	20.5%	24.9%

\*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.

<sup>†</sup>Free cash flow data is as of June 30, 2023. Prices are as of September 30, 2023. Excludes financials.

<sup>‡</sup>January 1, 1998. Standard deviation for the KAR strategy is based on net-of-fee returns.

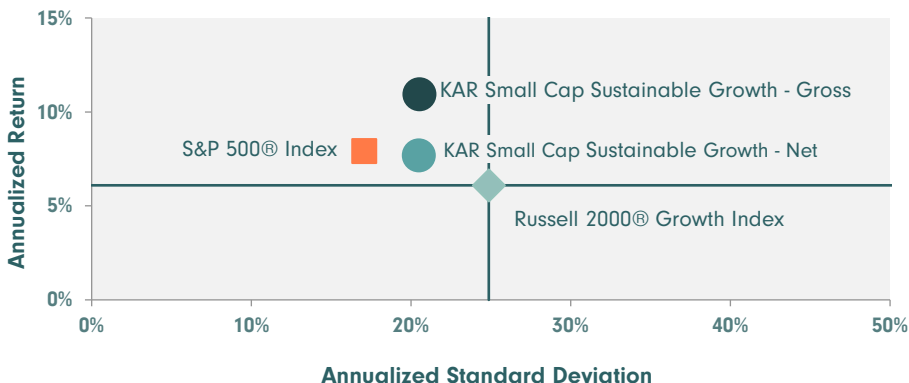
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. 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.

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Third Quarter 2023 | Managed Accounts

## Strong Risk-Adjusted Returns

Inception\* to September 30, 2023

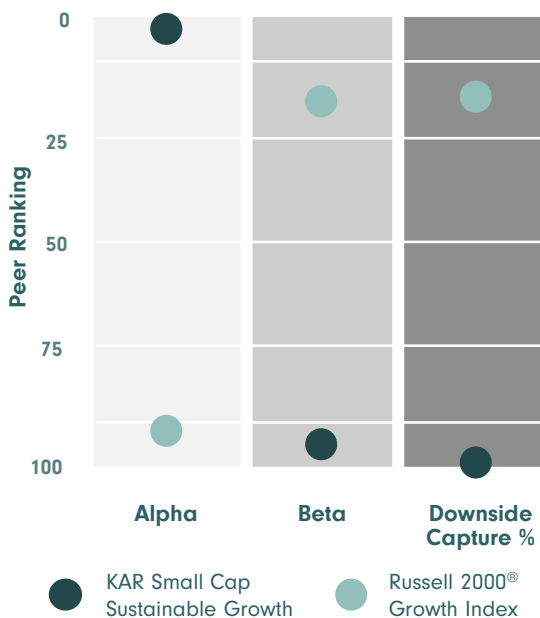


## Historical Returns

	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 September 30, 2023			
3 <sup>rd</sup> Quarter	0.66	(0.10)	(7.32)
Year to Date	13.20	10.71	5.24
One Year	15.28	11.90	9.59
Three Years	(0.84)	(3.78)	1.09
Five Years	7.10	3.94	1.55
Seven Years	15.47	12.09	6.77
Ten Years	14.40	11.05	6.72
Inception*	10.94	7.69	6.10
<b>Annual Returns (%)</b>			
2022	(30.08)	(32.21)	(26.36)
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	(1.11)	(1.38)
2014	5.16	2.06	5.60
2013	40.55	36.50	43.30
2012	12.38	9.08	14.59
2011	18.59	15.13	(2.91)
2010	15.44	12.06	29.09
2009	39.32	35.50	34.47
2008	(33.73)	(35.92)	(38.54)
2007	(0.61)	(3.56)	7.05
2006	15.47	12.16	13.35
2005	2.71	(0.32)	4.15
2004	13.42	10.15	14.31
2003	39.90	36.06	48.54
2002	(23.82)	(26.25)	(30.26)
2001	0.48	(2.56)	(9.23)
2000	6.28	3.17	(22.43)
1999	31.19	27.54	43.09
1998	3.33	0.27	1.23

## Peer Comparison Chart

Ten Years Ending September 30, 2023



The eVestment Small Cap Growth Universe includes 134 managers categorized in the small cap growth asset class by eVestment. KAR does not pay any fees to be included in the eVestment Small Cap Growth 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

Inception\* to September 30, 2023

	KAR Small Cap Sustainable Growth (gross)	KAR Small Cap Sustainable Growth (net)	Russell 2000 <sup>™</sup> Growth Index
Alpha	5.55	2.44	0.00
Sharpe Ratio	0.44	0.28	0.17
Information Ratio	0.42	0.14	N/A
Beta	0.73	0.73	1.00
Downside Capture	58.23	64.83	100.00
Tracking Error	11.52	11.52	N/A

**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. **Sector Focused Investing:** Events negatively affecting a particular industry or market sector in which the portfolio focuses its investments may cause the value of the portfolio to decrease. **Foreign Investing:** Investing in foreign securities subjects the portfolio to additional risks such as increased volatility; currency fluctuations; less liquidity; less publicly available information about the foreign investment; 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.

\*January 1, 1998

<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.

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 final unless otherwise specified. 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.

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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)
2013	40.55	36.50	43.30	11.96	17.52	26	0.58	23	7,841
2014	5.16	2.06	5.60	11.97	14.02	23	0.30	20	7,989
2015	1.91	(1.11)	(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	12.53	9.23	(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	39.37	35.35	34.63	20.75	25.46	89	0.52	532	39,582
2021	5.69	2.58	2.83	18.36	23.40	95	0.21	552	47,269
2022	(30.08)	(32.21)	(26.36)	21.92	26.57	79	0.17	318	33,531

\*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, 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 Cap Sustainable Growth 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.

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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 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 2000® Growth Index is a market capitalization-weighted index of growth-oriented stocks of the smallest 2,000 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.