

## Small Cap Sustainable Growth Portfolio

First Quarter 2021 | Managed Accounts

### Portfolio Review

The Small Cap Sustainable Growth portfolio underperformed the Russell 2000 Growth Index in the first quarter as more cyclical, lower quality names outperformed. Poor stock selection in information technology and poor stock selection and an overweight in communication services detracted from performance. An underweight in health care and utilities contributed positively to performance.

The biggest contributors to performance during the quarter were Fox Factory and Interactive Brokers Group. Fox Factory continues to benefit from the consumer's renewed or newly formed interest in outdoor activities where the company participates. Looking through the cyclicity driven by interest rates, Interactive Brokers continues to see through-the-cycle client account growth by increasing client account share and providing value via its automated platform. Other top contributors included Ollie's Bargain Outlet, Aspen Technology and Omega Flex.

The biggest detractors to performance were BlackLine and Avalara. Many businesses paused back office investing during the pandemic. Given that BlackLine sells transformational accounting software, the shares suffered during the period. Nonetheless, we believe the company's pipeline is improving and its offering for the mid-market has been resonating with consumers as these solutions are typically easier to implement and generate immediate value for customers. While Avalara reported strong quarter-end results, the broad market rotation from growth to value pressured the company's stock. Other bottom contributors included Rightmove, Paycom Software and MediaAlpha.

### Purchases and Sales

During the quarter, we purchased Olo. There were no complete sales from the portfolio. Olo is an ecommerce platform for restaurants. The platform powers a restaurant's website or app and routes customer orders directly into the restaurant Point of Sale (POS) system. Additional products help restaurant operators to manage deliveries as well as present a unified presence on delivery marketplaces, such as Door Dash and Uber Eats. The company charges a small monthly subscription fee for each restaurant and a small fixed transaction fee for each order. It also charges the marketplace participants for each transaction. The company processes 1.8 million orders per day. In our view, a competitor would have to create an equivalent product for an even lower price to compete with Olo, and even then, we think most restaurants would be unlikely to switch for fear of interrupting operations.

### Outlook

We believe the 2021/2022 economic outlook is becoming increasingly robust given significant pent-up consumer demand combined with record net worth, several trillion dollars of federal stimulus being distributed this year, vaccinations, and declining COVID-19 hospitalizations, all of which are improving consumer confidence. In a rapidly accelerating economic growth environment, low quality stocks tend to outperform high quality businesses as investors seek out companies with more operating and financial leverage. In our experience, equity markets are often 6 to 12 months ahead in assessing the business and economic environment. Once the acceleration in GDP starts to stabilize, we expect the relative performance of high-quality stocks will start to improve.



### Portfolio Highlights

**Style:** Small Cap  
**Sub-Style:** Growth  
**Index:** Russell 2000® Growth  
**Portfolio Inception:** 1998  
**Portfolio Assets:** \$9,987.3 M  
**Portfolio Turnover:** 25%-35%

### Investment Management Team

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

### Top Five Holdings

As of March 31, 2021

Company	Percent of equity (%)
Fox Factory	8.2
Bill.com	7.4
Ollie's Bargain Outlet	6.9
Auto Trader	5.5
Rightmove	5.0
<b>Total</b>	<b>33.1</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> <b>Portfolio Upgrade</b> <b>Acquisition Activity</b> <b>Negative Company or Industry Changes</b>

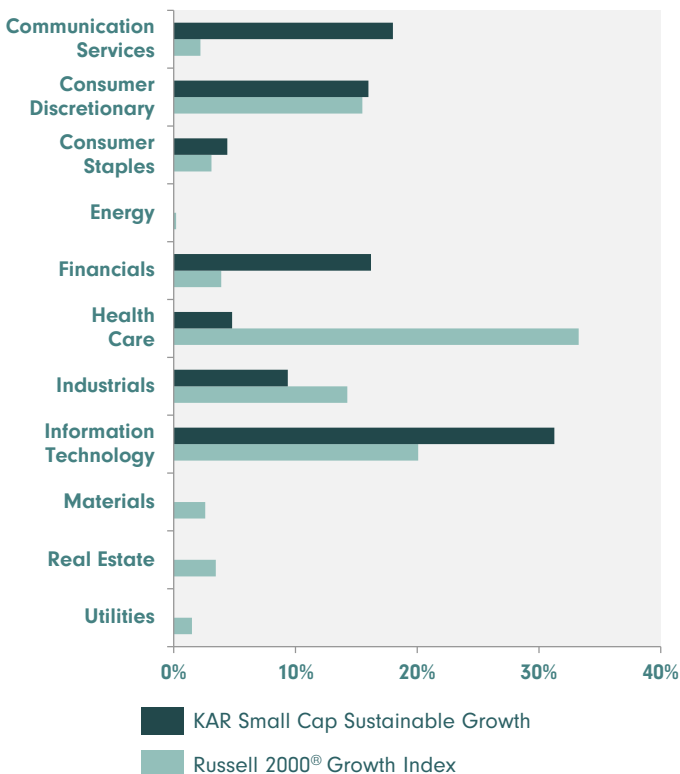
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of March 31, 2021



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 March 31, 2021

	KAR Small Cap Sustainable Growth	Russell 2000® Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	17.7%	9.5%
Total Debt/EBITDA	3.8 x	7.1 x
Earnings Variability—Past 10 Years	31.0%	68.9%
<b>Growth</b>		
Earnings Per Share Growth—Past 10 Years	13.3%	9.6%
Capital Generation—{ROE x (1-Payout)}	14.9%	8.3%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	64.6 x	-251.1 x
Free Cash Flow Yield <sup>†</sup>	2.1%	1.5%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$6.7 B	\$2.9 B
Largest Market Cap—3-Year Avg.	\$18.4 B	\$10.4 B
Annualized Standard Deviation—Since Inception <sup>‡</sup>	20.8%	25.5%

<sup>†</sup>Free cash flow data is as of December 31, 2020. Prices are as of March 31, 2021. Excludes financials.

<sup>‡</sup>January 1, 1998

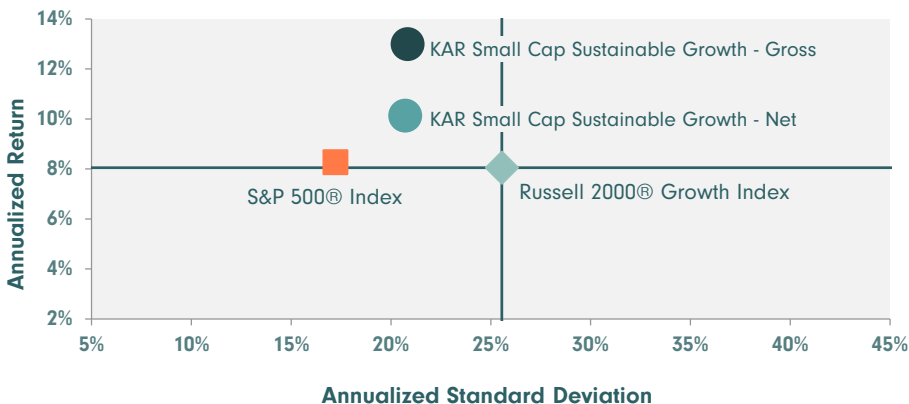
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics.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

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## Strong Risk-Adjusted Returns

Inception\* to March 31, 2021



## Historical Returns

	KAR Small Cap Sustainable Growth (gross)	KAR Small Cap Sustainable Growth (net) <sup>‡</sup>	Russell 2000® Growth Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of March 31, 2021			
1 <sup>st</sup> Quarter	(1.35)	(2.09)	4.88
One Year	63.55	58.90	90.20
Three Years	25.72	22.07	17.16
Five Years	29.50	25.74	18.61
Seven Years	23.32	20.04	12.77
Ten Years	21.61	18.56	13.02
Inception*	12.99	10.13	8.05

Annual Returns (%)	KAR Small Cap Sustainable Growth (gross)	KAR Small Cap Sustainable Growth (net) <sup>‡</sup>	Russell 2000® Growth Index
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	(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.

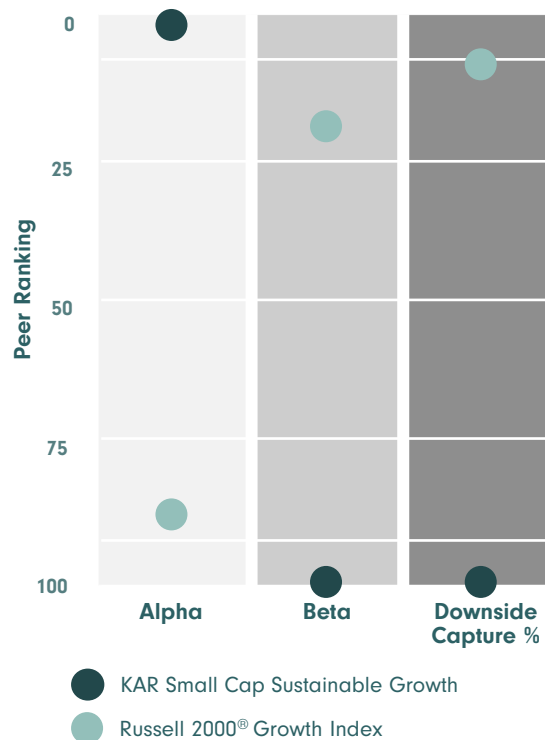
<sup>‡</sup>Net of all fees and expenses. Assumes a 3% annual fee.

<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.**

## Peer Comparison Chart

Ten Years Ending March 31, 2021



## Performance Statistics

Inception\* to March 31, 2021

	KAR Small Cap Sustainable Growth <sup>§</sup>	Russell 2000® Growth Index
Annualized Standard Deviation	20.83	25.55
Alpha	6.08	0.00
Beta	0.73	1.00
Sharpe Ratio	0.54	0.24
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.