

## Small Cap Sustainable Growth Portfolio

Fourth Quarter 2023 | Managed Accounts

### Portfolio Review

The Small Cap Sustainable Growth portfolio underperformed the Russell 2000 Growth Index in the fourth quarter. Poor stock selection in consumer discretionary and information technology detracted from performance. An underweight in energy and good stock selection in industrials contributed to performance.

The biggest contributors to performance during the quarter were Morningstar and AAON.

- Morningstar reported healthy growth in license-based software revenues and margin expansion, while cyclical market-driven headwinds continued to impact the company's transaction-based revenues. The market reacted favorably to margin expansion and the resilience of the company's recurring license-based revenues, and the shares outperformed during the quarter.
- AAON's shares outperformed as the company reported strong revenue growth and margin expansion as alleviating supply chain disruptions, operational efficiencies, and capacity additions drove output while pricing remained strong. While there were concerns around softer bookings last quarter, management noted underlying demand remains healthy and remains optimistic on its outlook for 2024, particularly given the 2025 refrigerant changeover.
- Other top contributors included Auto Trader, Dream Finders Homes, and Endava.

The biggest detractors from performance during the quarter were Fox Factory and BILL.

- Fox Factory suffered from a continued downdraft in its Specialty Sports business in its most recent quarter. Additionally, Fox Factory acquired a baseball bat and baseball accessory company, which the market appears to view as an expansion into a non-core market.
- BILL reported headwinds from a combination of a lower-fee payment mix, larger business customers scaling back spending due to the macroeconomic environment, and proactively limiting credit line exposure on its virtual card's product. Due to this confluence of headwinds, the company's stock underperformed.
- Other bottom contributors included Ryan Specialty, Interactive Brokers Group, and Oportun Financial.

### Purchases and Sales

During the quarter, we purchased Endava and Novanta. We sold Oportun Financial.

- Endava is a provider of digital technology services. Customers engage the company to provide software development and engineering talent from lower-cost geographies in similar time zones ("near-shoring") to the customers' own engineering teams.
- Novanta is a leading global supplier of highly engineered components and sub-systems that create a core technology solution to long lifecycle original equipment manufacturers' (OEM) customer platforms in medical and advanced industrial niche markets.
- We sold Oportun Financial as net charge-offs for recent vintage loans were developing at a higher pace than expected despite management's intention to tighten credit standards. Consequently, our confidence in the company's ability to achieve sustained and attractive profitability diminished.

### 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 Cap  
**Sub-Style:** Growth  
**Index:** Russell 2000® Growth  
**Portfolio Inception:** 1998  
**Portfolio Assets:** \$5,333.3 M\*  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Research Start Date
<b>Todd Bailey, CFA</b> Portfolio Manager + Senior Research Analyst	1999
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	1995
<b>Julie Biel, CFA</b> Senior Research Analyst	2004
<b>Julie Kutsov</b> Senior Research Analyst	2001
<b>Craig Stone</b> Senior Research Analyst	1990
<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 (%)
Morningstar	7.9
Ryan Specialty	7.7
AAON	6.7
Auto Trader	6.4
ServisFirst Bancshares	4.9
<b>Total</b>	<b>33.5</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.**

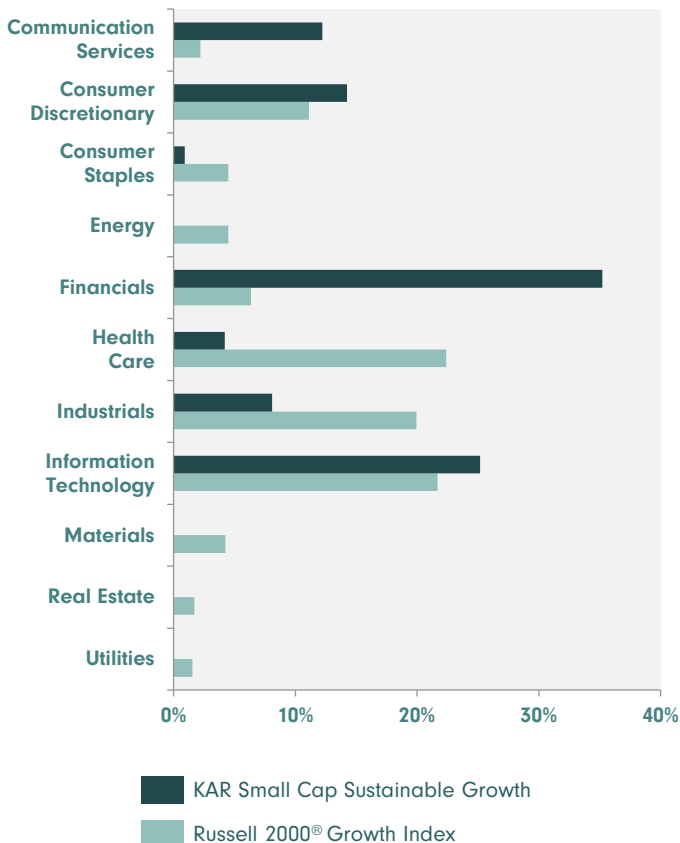
## Investment Process: Discovering Quality

<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>

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

## Sector Diversification

As of December 31, 2023



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## Portfolio Characteristics

As of December 31, 2023

	KAR Small Cap Sustainable Growth	Russell 2000® Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	19.1%	10.6%
Debt/EBITDA*	0.8 x	1.5 x
Earnings Variability—Past 10 Years	28.5%	75.8%
<b>Growth</b>		
Earnings Per Share Growth—Past 10 Years	15.0%	11.8%
Capital Generation—{ROE x (1-Payout)}	15.7%	9.4%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	48.0 x	83.5 x
Free Cash Flow Yield†	4.6%	2.1%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$6.6 B	\$3.5 B
Largest Market Cap—3-Year Avg.	\$20.3 B	\$13.2 B
Annualized Standard Deviation—Since Inception‡	20.4%	24.8%

\*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.

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

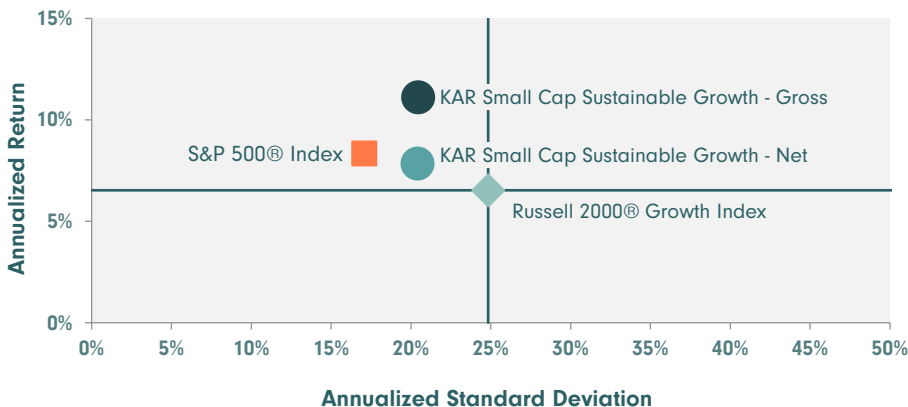
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics.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

Inception\* to December 31, 2023

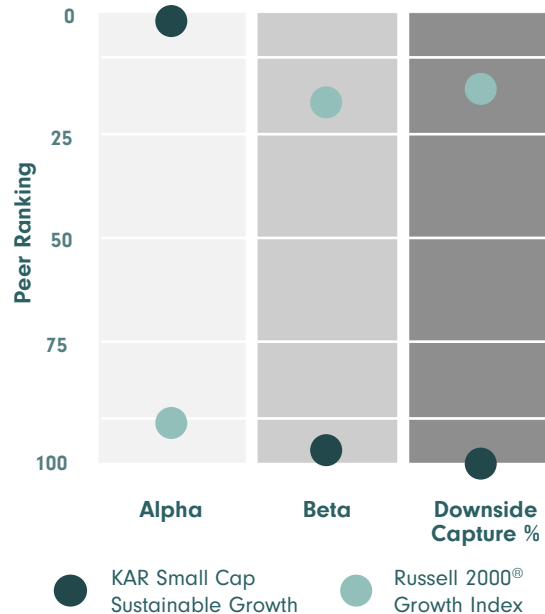


## Historical Returns

	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 December 31, 2023			
4 <sup>th</sup> Quarter	6.77	5.99	12.75
One Year	20.87	17.34	18.66
Three Years	(3.69)	(6.55)	(3.50)
Five Years	11.67	8.39	9.22
Seven Years	15.67	12.28	8.08
Ten Years	14.16	10.81	7.16
Inception*	11.11	7.85	6.53
<b>Annual Returns (%)</b>			
2023	20.87	17.34	18.66
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 December 31, 2023



The eVestment Small Cap Growth Universe includes 138 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 December 31, 2023

	KAR Small Cap Sustainable Growth (gross)	KAR Small Cap Sustainable Growth (net)	Russell 2000 <sup>™</sup> Growth Index
Alpha	5.40	2.29	0.00
Sharpe Ratio	0.45	0.29	0.18
Information Ratio	0.40	0.11	N/A
Beta	0.73	0.73	1.00
Downside Capture	58.23	64.83	100.00
Tracking Error	11.54	11.55	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.

# Small Cap Sustainable Growth (Wrap) Composite

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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.