

## Mid Cap Core Portfolio

Second Quarter 2022 | Managed Accounts



Manager of the  
Decade for the  
last 6 years  
(2016 - 2021)

### Portfolio Review

The Mid Cap Core portfolio outperformed the Russell Midcap Index in the second quarter. Good stock selection in financials and information technology contributed positively to performance. Poor stock selection in health care and an underweight in utilities detracted from performance.

The biggest contributors to performance during the quarter were Lamb Weston and Domino's Pizza.

- Lamb Weston has liquidity to weather through the current inflationary and recessionary period and continues to be the number one scale producer of frozen potatoes in the U.S.
- Domino's Pizza is experiencing pressures from labor availability but is benefitting from inflationary forces on the consumer's budget as a value-based restaurant brand.
- Other top contributors included W. R. Berkley, Aspen Technology, and LPL Financial.

The biggest detractors from the portfolio during the quarter were Zebra Technologies and Globus Medical.

- Investors sold shares of Zebra Technologies during the quarter as the company's stock was caught among a sector rotation away from technology.
- Results for Globus Medical's spine business has been hurt by the COVID pandemic and Omicron waves, as patients delay procedures.
- Other bottom contributors included West Pharmaceutical, Cooper Companies, and AMETEK.

### 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:** Mid Cap  
**Sub-Style:** Core  
**Index:** Russell Midcap®  
**Portfolio Inception:** 2000  
**Portfolio Assets:** \$2,270.9 M\*  
**Portfolio Turnover:** 25%-35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	36
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	27
<b>Craig Stone</b> Portfolio Manager + Senior Research Analyst	33
<b>Todd Bailey, CFA</b> Senior Research Analyst	23
<b>Julie Biel, CFA</b> Senior Research Analyst	14
<b>Julie Kutasov</b> Senior Research Analyst	21
<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 (%)
AMETEK	5.3
W. R. Berkley	4.7
Azenta	4.5
Lamb Weston	4.4
Globus Medical	4.4
<b>Total</b>	<b>23.3</b>

\* Figures in USD

†Represents years of industry experience.

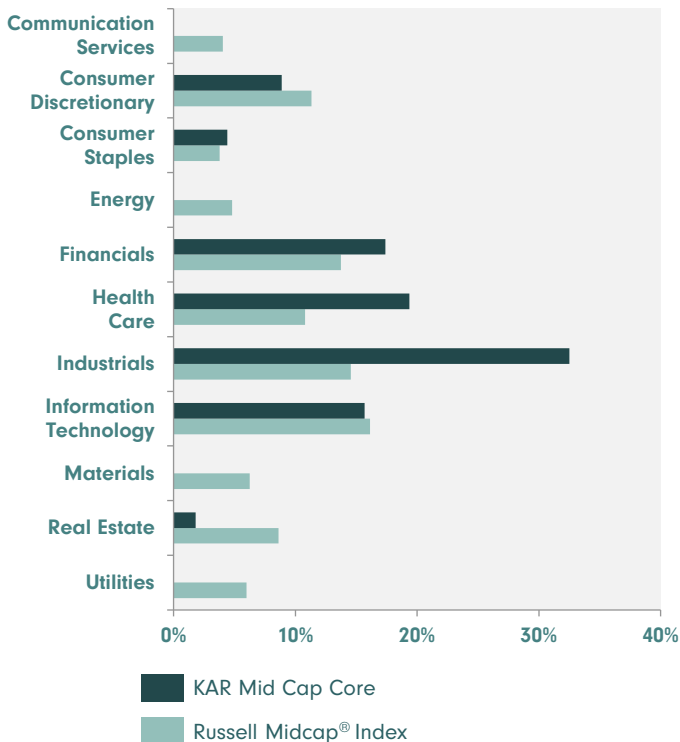
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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

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 June 30, 2022



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 June 30, 2022

	KAR Mid Cap Core	Russell Midcap Index
<b>Quality</b>		
Return on Equity—Past 5 Years	21.7%	16.5%
Total Debt/EBITDA	2.3 x	3.7 x
Earnings Variability—Past 10 Years	40.0%	63.5%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	16.4%	13.7%
Earnings Per Share Growth—Past 10 Years	14.0%	10.7%
Dividend Per Share Growth—Past 5 Years	9.2%	5.8%
Dividend Per Share Growth—Past 10 Years	9.0%	9.0%
Capital Generation—{ROE x (1-Payout)}	16.0%	11.6%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	24.3 x	19.9 x
Dividend Yield	0.9%	1.7%
Free Cash Flow Yield*	3.0%	3.9%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$15.4 B	\$19.7 B
Largest Market Cap—3-Year Avg.	\$47.8 B	\$63.1 B
Annualized Standard Deviation—Since Inception <sup>†</sup>	16.0%	19.8%

\*Free cash flow data is as of March 31, 2022. Prices are as of June 30, 2022. Excludes financials.

<sup>†</sup>January 1, 2000

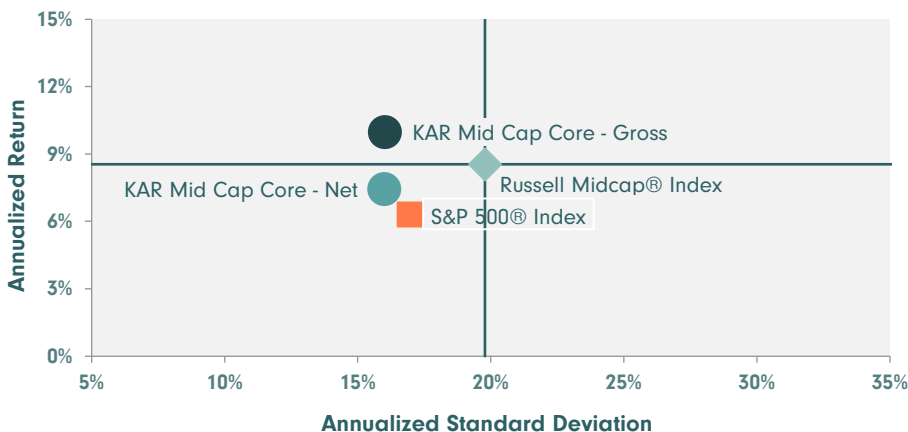
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. 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 June 30, 2022



## Historical Returns

	KAR Mid Cap Core (gross)	KAR Mid Cap Core (net) <sup>‡</sup>	Russell Midcap® Index
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### Annualized Returns (%)<sup>†</sup>

As of June 30, 2022

2 <sup>nd</sup> Quarter	(14.44)	(15.11)	(16.85)
Year to Date	(24.30)	(25.48)	(21.57)
One Year	(17.57)	(20.05)	(17.30)
Three Years	9.44	6.22	6.59
Five Years	12.09	8.80	7.96
Seven Years	11.51	8.38	8.04
Ten Years	13.97	11.34	11.29
Inception*	9.98	7.45	8.54

### Annual Returns (%)

2021	25.64	21.99	22.58
2020	26.22	22.55	17.10
2019	32.71	28.87	30.54
2018	(3.24)	(6.11)	(9.06)
2017	26.60	22.92	18.52
2016	12.24	8.95	13.80
2015	3.87	2.73	(2.44)
2014	17.88	16.68	13.22
2013	28.48	27.15	34.76
2012	16.27	14.45	17.28
2011	4.29	2.95	(1.55)
2010	19.46	17.99	25.48
2009	21.47	19.16	40.48
2008	(28.78)	(30.29)	(41.46)
2007	6.19	4.20	5.60
2006	13.10	10.91	15.26
2005	8.79	5.56	12.65
2004	15.29	11.86	20.22
2003	26.67	23.03	40.06
2002	(12.62)	(15.26)	(16.19)
2001	(2.76)	(5.59)	(5.62)
2000	21.54	17.94	8.25

\*January 1, 2000

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

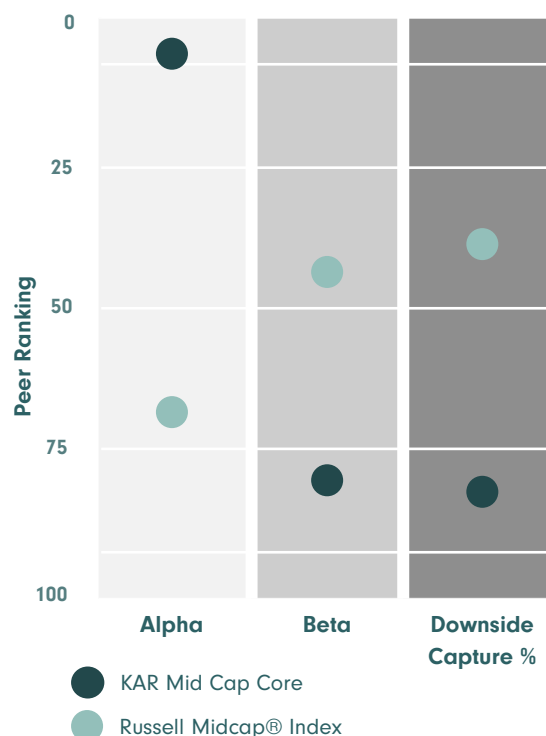
<sup>‡</sup>Net of all fees and expenses. Assumes a 3% annual fee.

<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 Mid Cap Core Universe includes all managers categorized in the mid cap core 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 Mid Cap Core <sup>§</sup>	Russell Midcap® Index
Annualized Standard Deviation	16.02	19.78
Alpha	2.77	0.00
Beta	0.76	1.00
Sharpe Ratio	0.53	0.36
R-Squared	87.89	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. **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 Midcap® Index Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Accounts at Year End	Internal Dispersion (%)	Composite Assets (\$ Millions)	Firm Assets (\$ Millions)
2011	4.29	2.95	(1.55)	N/A	N/A	6	0.70	25	5,232
2012	16.27	14.45	17.28	15.34	17.44	7	0.16	34	6,545
2013	28.48	27.15	34.76	12.48	14.23	6	0.28	12	7,841
2014	17.88	16.68	13.22	10.27	10.29	5	0.16	7	7,989
2015	3.87	2.73	(2.44)	11.94	11.00	5	N/A	7	8,095
2016	12.24	8.95	13.80	12.33	11.72	5	0.14	9	9,989
2017	26.60	22.92	18.52	10.79	10.51	< 5	N/A	9	14,609
2018	(3.24)	(6.11)	(9.06)	11.37	12.15	6	N/A	15	17,840
2019	32.71	28.87	30.54	12.56	13.08	< 5	N/A	20	25,685
2020	26.21	22.54	17.10	19.12	22.13	< 5	N/A	18	39,582

\*Pure gross returns are supplemental to net returns.

The Russell Midcap® Index and Russell 1000® Index are trademarks/service marks 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 Mid Cap Core Wrap Composite has had a performance examination for the period from January 1, 2000 through December 31, 2020. The verification and performance examination reports are available upon request.

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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 discretionary Mid Cap Core Wrap Portfolios. Mid Cap Core Wrap Portfolios are invested in equity securities with market capitalizations consistent with the Russell Midcap® 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 Midcap® Index. The Russell Midcap® Index is a market capitalization-weighted index of the 800 smallest companies in the Russell 1000® Index, which comprises the 1,000 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 2000. 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. 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.