

## Mid Cap Core Portfolio

Second Quarter 2023 | Managed Accounts

### Portfolio Review

The Mid Cap Core portfolio outperformed the Russell Midcap Index in the second quarter. An overweight in industrials and good stock selection in health care contributed positively to performance. Poor stock selection in information technology and real estate detracted from performance.

The biggest contributors to performance during the quarter were Bentley Systems and Lennox International.

- Bentley Systems experienced strong quarterly operating results across the company's business segments. Profitability also improved as the company scales its fixed costs and continues to invest in its markets and research and development.
- Lennox International reported a quarter of strong growth with margin recovery ahead of targets as it executes the turnaround of its commercial business and implements better operational practices.
- Other top contributors included AMETEK, Verisk Analytics, and West Pharmaceutical Services.

The biggest detractors from the portfolio during the quarter were Aspen Technology and Zebra Technologies.

- After several quarters of positive comments from management, Aspen Technology's earnings guidance for the year was cut due to unforeseen issues integrating recently acquired businesses and a softening macroeconomic environment. The unexpected change in guidance resulted in a sell-off in the stock.
- Zebra Technologies' shares underperformed in the most recent quarter as macroeconomic conditions continued to deteriorate, leading to another downward revision to full year guidance.
- Other bottom contributors included First Financial Bankshares, Exponent, and W. R. Berkley.

### Purchases and Sales

During the quarter, we purchased Brown & Brown. There were no complete sales from the portfolio. Brown & Brown is the fifth largest independent insurance brokerage in the U.S. The company serves as an intermediary between insurance carriers and commercial customers seeking a variety of risk coverages. Its brokers earn commissions, determined as a percentage of the policy premium, paid by insurance companies for placing policies with insured customers.

### Outlook

Inflation data continues to head in the right direction, which we believe may set the stage for little to no further short-term interest rate increases from here. If you exclude the P/E ratios of the top 7 companies in the S&P 500 Index, valuations decline to the 13-to-17x earnings for the rest of the market. This valuation backdrop can help offset any mild decline in earnings even if the economy does slip into a mild or shallow recession. We have seen some improvements in breadth over the last half of this quarter, but not robust enough yet to call it a trend. If breadth expands, this would be a positive sign for equities.

### Portfolio Highlights

**Style:** Mid Cap  
**Sub-Style:** Core  
**Index:** Russell Midcap®  
**Portfolio Inception:** 2000  
**Portfolio Assets:** \$3,175.7 M\*  
**Portfolio Turnover:** 25%-35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	37
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	28
<b>Craig Stone</b> Portfolio Manager + Senior Research Analyst	34
<b>Todd Beiley, CFA</b> Senior Research Analyst	24
<b>Julie Biel, CFA</b> Senior Research Analyst	15
<b>Julie Kutasov</b> Senior Research Analyst	22
<b>Chris Wright, CFA</b> Senior Research Analyst	11
<b>Sean Dixon</b> Research Analyst	15
<b>Arthur Su, CFA</b> Research Analyst	8
<b>Adam Xiao, CFA</b> Research Analyst	10
<b>Clarissa Ali</b> Junior Research Analyst	<1
<b>James B. May, CFA</b> Client Portfolio Manager	35†
<b>Jason Pomatto</b> Client Portfolio Manager	29†

### Top Five Holdings

As of June 30, 2023

Company	Percent of equity (%)
AMETEK	6.4
West Pharmaceutical Services	6.3
POOLCORP	4.5
Lamb Weston	4.4
Bentley Systems	4.2
<b>Total</b>	<b>25.9</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. 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>

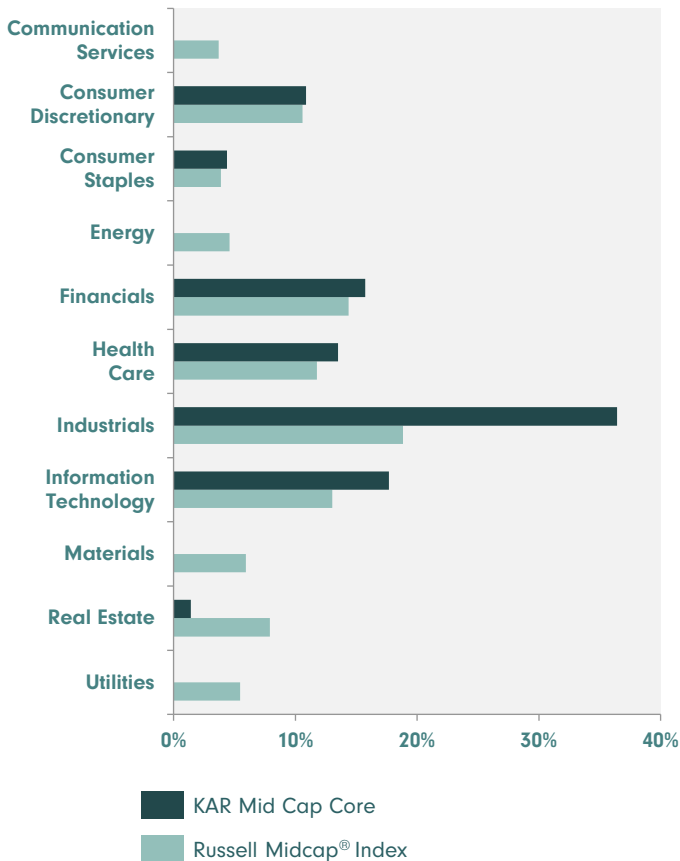
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of June 30, 2023



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## Portfolio Characteristics

As of June 30, 2023

	KAR Mid Cap Core	Russell Midcap Index
<b>Quality</b>		
Return on Equity—Past 5 Years	23.0%	15.9%
Debt/EBITDA*	1.6 x	2.4 x
Earnings Variability—Past 10 Years	33.4%	65.2%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	16.4%	12.4%
Earnings Per Share Growth—Past 10 Years	14.8%	10.8%
Dividend Per Share Growth—Past 5 Years	11.3%	7.1%
Dividend Per Share Growth—Past 10 Years	12.4%	7.8%
Capital Generation—{ROE x (1-Payout)}	17.0%	11.4%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	33.1 x	24.8 x
Dividend Yield	0.9%	1.7%
Free Cash Flow Yield <sup>†</sup>	1.9%	3.5%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$16.4 B	\$21.4 B
Largest Market Cap—3-Year Avg.	\$45.1 B	\$58.6 B
Annualized Standard Deviation—Since Inception <sup>‡</sup>	15.8%	19.3%

\*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 March 31, 2023. Prices are as of June 30, 2023. Excludes financials.

<sup>‡</sup>January 1, 2000. Standard deviation for the KAR strategy is based on net-of-fee returns.

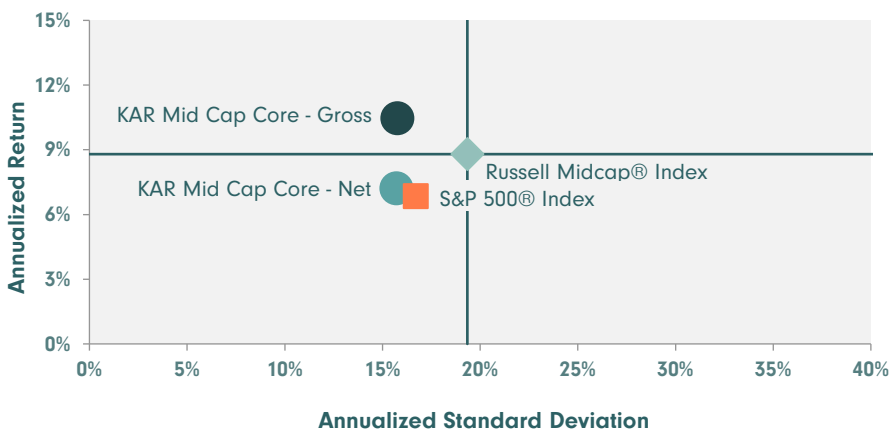
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. 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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Second Quarter 2023 | Managed Accounts

## Risk-Return Analysis

Inception\* to June 30, 2023



## Historical Returns

	KAR Mid Cap Core (gross)	KAR Mid Cap Core (net) <sup>‡</sup>	Russell Midcap® Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of June 30, 2023			
2 <sup>nd</sup> Quarter	6.47	5.69	4.76
Year to Date	13.89	12.23	9.01
One Year	21.50	17.96	14.92
Three Years	13.55	10.22	12.50
Five Years	12.17	8.88	8.46
Seven Years	14.26	10.91	10.12
Ten Years	14.16	10.81	10.32
Inception*	10.45	7.21	8.80
<b>Annual Returns (%)</b>			
2022	(19.24)	(21.67)	(17.32)
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	0.80	(2.44)
2014	17.88	14.43	13.22
2013	28.48	24.75	34.76
2012	16.27	12.87	17.28
2011	4.29	1.21	(1.55)
2010	19.46	15.97	25.48
2009	21.47	18.02	40.48
2008	(28.78)	(31.08)	(41.46)
2007	6.19	3.09	5.60
2006	13.10	9.84	15.26
2005	8.79	5.63	12.65
2004	15.29	11.99	20.22
2003	26.67	23.11	40.06
2002	(12.62)	(15.31)	(16.19)
2001	(2.76)	(5.68)	(5.62)
2000	21.54	18.10	8.25

**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:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Price changes may be short- or long-term. Local, regional, or global events such as war or military conflict (e.g., Russia's invasion of Ukraine), acts of terrorism, the spread of infectious illness (e.g., COVID-19 pandemic) 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's manager(s) to invest the portfolio's assets as intended.

## Peer Comparison Chart

Ten Years Ending June 30, 2023



The eVestment Mid Cap Core Universe includes 43 managers categorized in the mid cap core asset class by eVestment. KAR does not pay any fees to be included in the eVestment Mid Cap Core 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 June 30, 2023

	KAR Mid Cap Core (gross)	KAR Mid Cap Core (net)	Russell Midcap® Index
Alpha	3.00	(0.06)	0.00
Sharpe Ratio	0.56	0.36	0.37
Information Ratio	0.23	(0.22)	N/A
Beta	0.76	0.76	1.00
Downside Capture	69.18	77.46	100.00
Tracking Error	7.17	7.18	N/A

\*January 1, 2000

<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. 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 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)
2013	28.48	24.75	34.76	12.48	14.23	6	0.28	12	7,841
2014	17.88	14.43	13.22	10.27	10.29	5	0.16	7	7,989
2015	3.87	0.80	(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	26.22	22.55	17.10	19.10	22.13	< 5	N/A	15	39,582
2021	25.64	21.99	22.58	17.89	20.84	13	N/A	25	47,269
2022	(19.24)	(21.67)	(17.32)	21.27	23.95	26	0.34	23	33,531

\*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, 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 Mid Cap Core Wrap Composite has had a performance examination for the period from January 1, 2000 through December 31, 2022. 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 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 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 Midcap® Index is a market capitalization-weighted index of medium-capitalization stocks of 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.