

# Large Cap Sustainable Growth Portfolio

First Quarter 2021

## Portfolio Review

The Large Cap Sustainable Growth portfolio underperformed the Russell 1000 Growth Index as more cyclical and lower quality names outperformed in the first quarter. Poor stock selection in information technology and poor stock selection and an overweight in consumer discretionary detracted from performance. Good stock selection in financials and consumer staples contributed positively to performance.

The biggest contributors to performance were Bank of America and Kansas City Southern. Despite the fact that Bank of America has exemplary credit ratios, it voluntarily agreed to suspend share repurchases to assure liquidity during the COVID-19 crisis. They resumed the program in January. As the economy reopens, we believe improving business activity should also provide a complementary tailwind to the back-up in interest rates. Kansas City Southern was acquired for a significant premium following our purchase. As the only railroad that connects Canada with Mexico, we believe a number of long-term drivers should provide strong growth for years to come. Other top contributors included Facebook, Tencent Holdings and Home Depot.

The biggest detractors to performance were The Trade Desk and Paycom Software. The Trade Desk was pressured by concerns over Apple's opt-in policy for its Identifier for Advertisers (IDFA) and Google's cookie policies (tools advertisers use to target and track users with iOS or Android devices). The Trade Desk's management stated that only 10% of the ad spend on its platform is on iOS and it has plenty of other inventory to sell advertisers in its place. Google's decision complicates tracking a little more, but The Trade Desk is working with a consortium of adtech companies to develop an alternative called Unified ID that leverages email identification to deliver targeted ads. Paycom Software digested some of its strong gains from the fourth quarter 2020 in the first quarter of 2021, pulling back with the rest of the software names. However, the company reported encouraging numbers. Paycom prices its product on a per-employee basis so the reduction in payrolls had a significant effect. Also, the interest on the payroll capital that it manages on behalf of its customers was hit by the reduction of interest rates. Other bottom contributors included Avalara, Amazon.com and MercadoLibre.

## 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.

## Purchases and Sales

| New Purchases | Complete Sales |
|---------------|----------------|
| None          | None           |

## Portfolio Highlights

**Style:** Large Cap  
**Sub-Style:** Growth  
**Index:** Russell 1000® Growth  
**Portfolio Assets:** \$2,001.1 M  
**Portfolio Turnover:** 25%–35%

## Investment Management Team

| Name   | Years of research experience |
|--|------------------------------|
| <b>Douglas S. Foreman, CFA</b><br>Chief Investment Officer + Portfolio Manager | <b>35</b>                    |
| <b>Chris Armbruster, CFA</b><br>Portfolio Manager + Senior Research Analyst    | <b>16</b>                    |
| <b>Richard Sherry, CFA</b><br>Senior Research Analyst                          | <b>23</b>                    |
| <b>Noran Eid</b><br>Research Analyst   | <b>8</b>                     |

## Top Five Holdings

As of March 31, 2021

| Company      | Percent of equity (%) |
|--------------|-----------------------|
| Amazon.com   | 8.5                   |
| Facebook     | 5.8                   |
| NVIDIA       | 5.3                   |
| Bill.com     | 4.9                   |
| Visa         | 4.4                   |
| <b>Total</b> | <b>28.9</b>           |

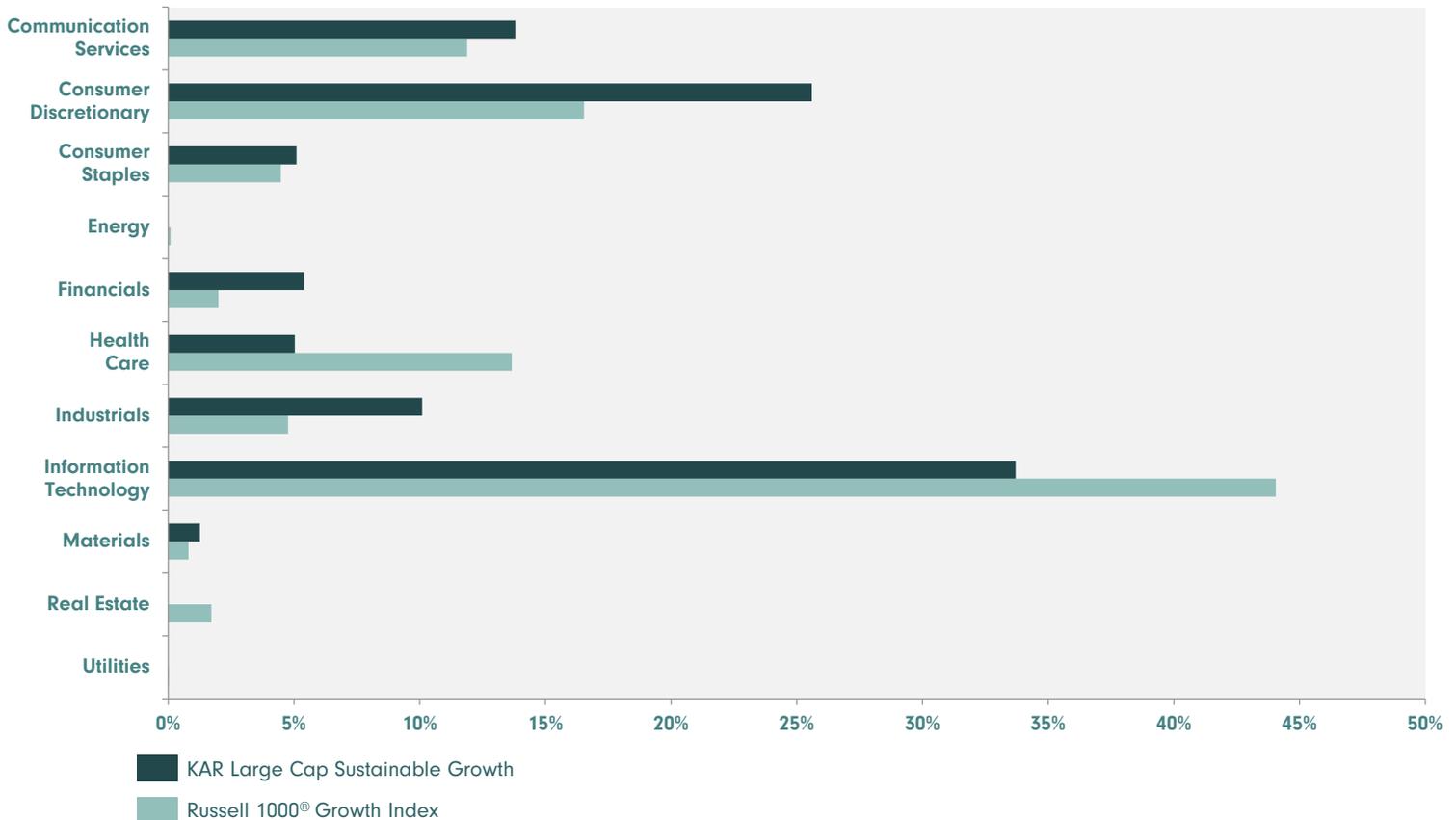
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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  |
|---|--|---|--|
| <p><b>Quantitative Methods</b></p> <ul style="list-style-type: none"> <li>Investment conferences</li> <li>Meetings with companies</li> <li>Industry reviews</li> <li>Research on existing portfolio holdings</li> <li>Third-party research</li> </ul> <p><b>Quantitative Screens</b></p> <ul style="list-style-type: none"> <li>High return on capital over a full economic cycle</li> <li>Earnings surprise</li> <li>Long and resilient earnings history</li> <li>High return on net operating assets</li> <li>Minimal debt</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>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>Negative Company or Industry Changes</b></p> <p><b>Portfolio Upgrade</b></p> <p><b>Acquisition Activity</b></p> <p><b>Extended Valuation</b></p> |
| <p>Higher Quality   Stronger, More Consistent Growth   Better Value</p>   |  |   |  |

## 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.

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First Quarter 2021

## Portfolio Characteristics

As of March 31, 2021

|   | KAR Large Cap Sustainable Growth | Russell 1000® Growth Index |
|---|----------------------------------|----------------------------|
| <b>Quality</b>                          |                                  |                            |
| Return on Equity—Past 5 Years           | 23.1%                            | 26.9%                      |
| Total Debt/EBITDA                       | 3.6 x                            | 1.9 x                      |
| Earnings Variability—Past 10 Years      | 39.2%                            | 43.8%                      |
| <b>Growth</b>                           |                                  |                            |
| Sales Per Share Growth—Past 5 Years     | 18.5%                            | 15.0%                      |
| Earnings Per Share Growth—Past 5 Years  | 21.3%                            | 20.7%                      |
| Earnings Per Share Growth—Past 10 Years | 16.1%                            | 13.3%                      |
| <b>Value</b>                            |                                  |                            |
| P/E Ratio—Trailing 12 Months            | 76.3 x                           | 42.9 x                     |
| P/E Ratio—1-Year Forecast FY EPS        | 36.7 x                           | 30.1 x                     |
| Free Cash Flow Yield <sup>‡</sup>       | 2.0%                             | 3.1%                       |
| <b>Market Characteristics</b>           |                                  |                            |
| \$ Weighted Average Market Cap          | \$315.0 B                        | \$700.9 B                  |
| Largest Market Cap                      | \$1,543.3 B                      | \$2,050.7 B                |

## Performance Statistics

Inception\* to March 31, 2021

|                               | KAR Large Cap Sustainable Growth <sup>†</sup> | Russell 1000® Growth Index |
|-------------------------------|---|----------------------------|
| Annualized Standard Deviation | 15.73   | 13.95                      |
| Beta                          | 1.07  | 1.00                       |
| Sharpe Ratio                  | 1.17  | 1.29                       |
| R-Squared                     | 90.19   | 100.00                     |

## Historical Returns

|  | KAR Large Cap Sustainable Growth (gross) | KAR Large Cap Sustainable Growth (net) <sup>§</sup> | Russell 1000® Growth Index |
|--|--|---|----------------------------|
| <b>Annualized Returns (%)<sup>  </sup></b> |  |   |                            |
| As of March 31, 2021                       |  |   |                            |
| 1 <sup>st</sup> Quarter                    | (1.57)                                   | (1.74)  | 0.94                       |
| One Year                                   | 70.29                                    | 69.15   | 62.74                      |
| Three Years                                | 23.10                                    | 22.25   | 22.80                      |
| Five Years                                 | 22.30                                    | 21.46   | 21.05                      |
| Seven Years                                | 18.88                                    | 18.07   | 17.50                      |
| Inception*                                 | 18.93                                    | 18.11   | 18.51                      |
| <b>Annual Returns (%)</b>                  |  |   |                            |
| 2020                                       | 51.02                                    | 49.99   | 38.49                      |
| 2019                                       | 41.05                                    | 40.09   | 36.39                      |
| 2018                                       | (6.43)                                   | (7.09)  | (1.51)                     |
| 2017                                       | 35.87                                    | 34.95   | 30.21                      |
| 2016                                       | (0.03)                                   | (0.73)  | 7.08                       |
| 2015                                       | 10.43                                    | 9.68  | 5.67                       |
| 2014                                       | 12.66                                    | 11.86   | 13.05                      |
| 2013                                       | 30.66                                    | 29.78   | 33.48                      |
| 2012                                       | 14.76                                    | 13.96   | 15.26                      |

\*January 1, 2012

<sup>†</sup>Performance statistics are based on gross of fee returns.

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

<sup>§</sup>Net of all fees and expenses. Assumes a 0.70% annual fee.

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

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. 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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### Disclosure

| Year | Composite Gross Return (%) | Composite Net Return (%) | Russell 1000® Growth Index Return (%) | Composite 3-Yr Std Dev (%) | Benchmark 3-Yr Std Dev (%) | Number of Accounts | Internal Dispersion (%) | Composite Assets (\$ Millions) | Firm Assets (\$ Millions) |
|------|----------------------------|--------------------------|---------------------------------------|----------------------------|----------------------------|--------------------|-------------------------|--------------------------------|---------------------------|
| 2012 | 14.76                      | 13.96                    | 15.26                                 | N/A                        | N/A                        | 24                 | 0.03                    | 583                            | 6,545                     |
| 2013 | 30.66                      | 29.78                    | 33.48                                 | N/A                        | N/A                        | 25                 | 0.08                    | 674                            | 7,841                     |
| 2014 | 12.66                      | 11.86                    | 13.05                                 | 10.39                      | 9.73                       | 25                 | 0.14                    | 681                            | 7,989                     |
| 2015 | 10.43                      | 9.68                     | 5.67                                  | 12.33                      | 10.85                      | 31                 | 0.35                    | 687                            | 8,095                     |
| 2016 | (0.03)                     | (0.73)                   | 7.08                                  | 13.24                      | 11.31                      | 57                 | 0.06                    | 928                            | 9,989                     |
| 2017 | 35.87                      | 34.95                    | 30.21                                 | 12.52                      | 10.69                      | 142                | 1.50                    | 1,175                          | 14,609                    |
| 2018 | (6.43)                     | (7.09)                   | (1.51)                                | 14.27                      | 12.30                      | 217                | 0.18                    | 991                            | 17,840                    |
| 2019 | 41.05                      | 40.09                    | 36.39                                 | 16.39                      | 13.26                      | 284                | 0.66                    | 1,304                          | 25,685                    |

The Russell 1000® 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. The verification reports are available upon request.

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. Verification does not ensure the accuracy of any specific composite presentation.

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 institutional and pooled Large Cap Sustainable Growth Portfolios. Large Cap Sustainable Growth

Portfolios are invested in equity securities with market capitalizations consistent with the Russell 1000® 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 1000® Growth Index. The Russell 1000® Growth Index is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises of 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 January 2012. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

Non-fee-paying portfolios represent 8% of the composite assets at year-end 2013, 0.1% at year-end 2014 through 2015, and < 1% at year-end from 2016 through 2019.

The standard management fee schedule currently in effect is as follows: 0.70% for the first \$10 million; 0.55% on the next \$25 million; 0.45% on the next \$50 million; 0.35% on the balance. 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. Returns are presented gross of management fees and withholding taxes and net of transaction fees and include the reinvestment of all income. Gross returns will be reduced by investment management fees and other expenses that may be incurred in the management of the account. Model net returns have been calculated by deducting 1/12th of the highest tier of the standard management fee schedule in effect for the respective period from the gross composite returns on a monthly basis.

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 or for time periods less than one year, no dispersion measure is presented. The three-year annualized ex-post standard deviation, which measures the variability of the composite (using gross returns) and the benchmark for the 36-month period, is not presented for periods prior to 2014 because 36 monthly composite returns are not available.