

## Small Cap Quality Value Portfolio

First Quarter 2022



Manager of the  
Decade for the last  
2 years (2020 - 2021)

### Portfolio Review

The Small Cap Quality Value portfolio underperformed the Russell 2000 Value Index in the first quarter. An overweight and poor stock selection in consumer discretionary and an underweight in energy detracted from performance. An underweight in communication services and health care contributed positively to performance.

From a quality perspective, riskier stocks (as measured by beta greater than 2.0) and companies with higher leverage (as measured by long-term debt/capital greater than 100%) performed better than those companies with lower risk and less leverage. Also, higher dividend paying stocks performed better than those that pay no dividend during the quarter. All these factors worked as a headwind to our investment strategy.

The biggest contributors to performance during the quarter were Jack Henry & Associates and Terminix. Jack Henry & Associates has underperformed for some time but experienced strong performance in the most recent quarter after the company reported its highest organic growth rate in over four years. As a result, management increased its guidance for the year. From our perspective, the company continues to take share in many of its businesses while generating attractive margins. In the most recent quarter, Terminix reported organic sales and profit growth aided by pricing actions. The market reacted favorably to these results and to the increased likelihood of the acquisition of Terminix by a competitor. Other top contributors included The Cheesecake Factory, RLI and Watsco.

The biggest detractors from performance were SiteOne Landscape Supply and Latham Group. SiteOne Landscape Supply has experienced good results over time. However, this quarter investors rotated away from high performers and there was a sharper decline among consumer discretionary stocks due to worries about the economic cycle. While we view the long-term cost advantage of fiberglass versus traditional pool construction as still intact, the current inflationary environment has suppressed the margin of Latham's business as the company works through its backlog. The existing backlog will also lag on margins if raw material inflation persists, as it has during the current period. This contrasts with investors expectation of improving margins at the time of its IPO in Q2 2021. However, we believe as commodity inflation subsides the company may continue to see new order growth that is likely to carry higher margins as pricing can be adjusted at a faster pace. There is also opportunity for the fiberglass pool industry to gain faster penetration in the U.S. as it has experienced in other developed markets, such as Australia, Spain, and France. Other bottom detractors included Scotts Miracle-Gro, Azenta and Thor Industries.

### Purchases and Sales

During the quarter, there were no new purchases or complete sales.

### Outlook

The U.S. is in a position of strength economically even creating excess demand currently, but interest rate increases have already affected mortgage rates, car loans, and lease rates here in the U.S. Unless the Fed wants to throw us into a recession (yield curve inversion), the current future shape of the yield curve may prevent as much of an increase in short-term interest rates than what the market is already anticipating. The inflation outlook was particularly cloudy with COVID-19 getting better globally, but the Russian invasion of Ukraine was a clear negative for inflation. Overall, we believe inflation is likely to stay elevated and above the Fed's target for this year at least. However, comparisons of year-over-year inflation do get easier as we move forward. If the trend is headed in the right direction of moderating inflation, the markets may react positively to this development. We will continue to hunt for investment ideas that in our view meet our quality investment philosophy in all sectors of the economy. When inflationary trends begin to moderate, we believe quality companies will become more interesting to investors. Geopolitical risks are clearly still elevated and will continue to be monitored closely.

### Portfolio Highlights

**Style:** Small Cap  
**Sub-Style:** Value  
**Index:** Russell 2000® Value  
**Portfolio Inception:** 1998  
**Portfolio Assets:** \$6,494.7 M\*  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	36
<b>Julie Kutasov</b> Portfolio Manager + Senior Research Analyst	21
<b>Craig Stone</b> Portfolio Manager + Senior Research Analyst	33
<b>Todd Beiley, CFA</b> Senior Research Analyst	23
<b>Julie Biel, CFA</b> Senior Research Analyst	14
<b>Jon Christensen, CFA</b> Senior Research Analyst	27
<b>Chris Wright, CFA</b> Senior Research Analyst	10
<b>Sean Dixon</b> Research Analyst	14
<b>Adam Xiao, CFA</b> Research Analyst	9

### Top Five Holdings

As of March 31, 2022

Company	Percent of equity (%)
Azenta	5.5
Watsco	5.4
Scotts Miracle-Gro	4.4
EVERTEC	4.4
Houlihan Lokey	4.2
<b>Total</b>	<b>23.9</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. 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>

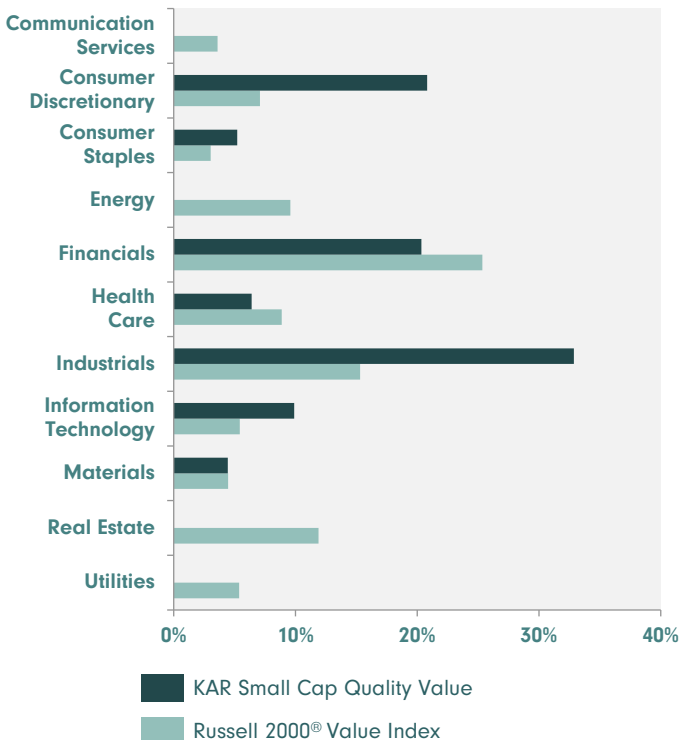
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of March 31, 2022



## Portfolio Characteristics

As of March 31, 2022

	KAR Small Cap Quality Value	Russell 2000 Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	22.8%	7.8%
Total Debt/EBITDA	3.7 x	5.5 x
Earnings Variability—Past 10 Years	45.5%	84.9%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	12.5%	12.1%
Earnings Per Share Growth—Past 10 Years	11.0%	6.9%
Dividend Per Share Growth—Past 5 Years	6.4%	1.0%
Dividend Per Share Growth—Past 10 Years	10.4%	5.0%
Capital Generation—{ROE x (1-Payout)}	13.7%	5.9%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	23.3 x	22.8 x
Dividend Yield	1.1%	1.8%
Free Cash Flow Yield <sup>†</sup>	3.4%	1.9%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$4.7 B	\$2.4 B
Largest Market Cap—3-Year Avg.	\$12.3 B	\$12.3 B
Annualized Standard Deviation—Since Inception <sup>‡</sup>	16.7%	19.1%

<sup>†</sup>Free cash flow data is as of December 31, 2021. Prices are as of March 31, 2022. Excludes financials.

<sup>‡</sup>June 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.** Returns could be reduced, or losses incurred, due to currency fluctuations.

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.

# Small Cap Quality Value Portfolio

First Quarter 2022

## Strong Risk-Adjusted Returns

Inception\* to March 31, 2022



## Historical Returns

	KAR Small Cap Quality Value (gross)	KAR Small Cap Quality Value (net) <sup>†</sup>	Russell 2000 <sup>®</sup> Value Index
<b>Annualized Returns (%)<sup>‡</sup></b>			
As of March 31, 2022			
1 <sup>st</sup> Quarter	(14.03)	(14.26)	(2.40)
One Year	(8.59)	(9.50)	3.32
Three Years	15.15	14.01	12.73
Five Years	10.65	9.56	8.57
Seven Years	11.42	10.32	8.77
Ten Years	12.18	11.07	10.54
Inception*	11.73	10.62	8.47

	KAR Small Cap Quality Value (gross)	KAR Small Cap Quality Value (net) <sup>†</sup>	Russell 2000 <sup>®</sup> Value Index
<b>Annual Returns (%)</b>			
2021	20.68	19.50	28.27
2020	29.87	28.60	4.63
2019	25.79	24.56	22.39
2018	(14.80)	(15.66)	(12.86)
2017	20.48	19.30	7.84
2016	26.74	25.50	31.74
2015	(0.16)	(1.15)	(7.47)
2014	3.05	2.02	4.22
2013	41.06	39.70	34.52
2012	9.97	8.88	18.05
2011	6.57	5.51	(5.50)
2010	25.10	23.88	24.50
2009	26.97	25.73	20.58
2008	(28.51)	(29.25)	(28.92)
2007	2.19	1.17	(9.78)
2006	24.45	23.24	23.48
2005	8.88	7.80	4.71
2004	28.10	26.85	22.25
2003	21.88	20.68	46.03
2002	1.11	0.11	(11.43)
2001	19.42	18.25	14.02
2000	24.92	23.70	22.83
1999	(7.69)	(8.61)	(1.49)
1998 <sup>¶</sup>	9.61	8.98	(10.93)

\*June 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 1% annual fee. Fees presented on the Disclosure page could vary from the assumed fee in the net-of-fee calculation, as actual fees paid by a particular client account differ depending on a variety of factors including, but not limited to, business unit and size of mandate. The fee used on the Disclosure page utilizes an assumed maximum fee across the firm's business units, which is further detailed on that page.

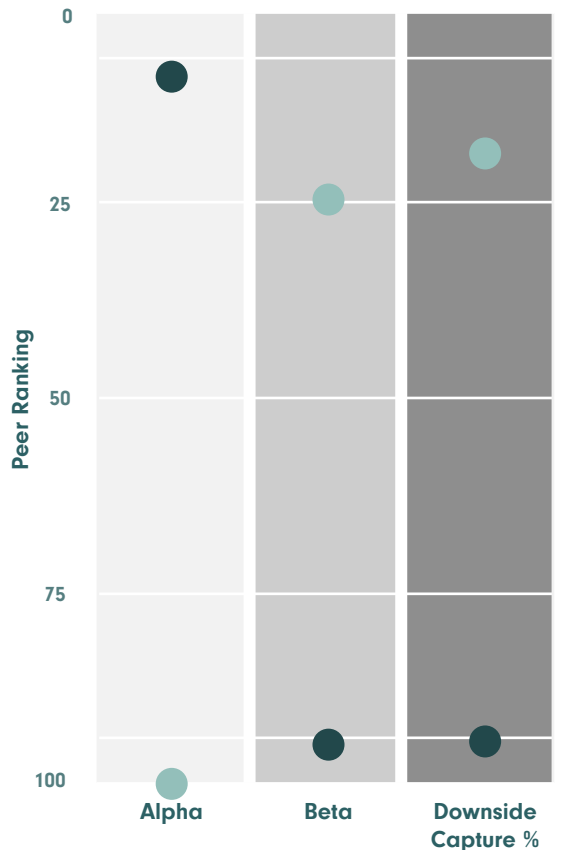
<sup>§</sup>Performance statistics are based on gross of fee returns

<sup>¶</sup>Performance calculations are for the seven months ended December 31, 1998.

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 Value Universe includes all managers categorized in the small cap value 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

Inception\* to March 31, 2022



● KAR Small Cap Quality Value  
● Russell 2000 Value Index

## Performance Statistics

Inception\* to March 31, 2022

	KAR Small Cap Quality Value <sup>§</sup>	Russell 2000 <sup>®</sup> Value Index
Annualized Standard Deviation	16.71	19.15
Alpha	4.55	0.00
Beta	0.76	1.00
Sharpe Ratio	0.60	0.35
R-Squared	76.78	100.00

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### Disclosure

Year	Composite Gross Return (%)	Composite Net Return (%)	Russell 2000® Value Index Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Number of Accounts	Internal Dispersion (%)	Composite Assets (\$ Millions)	Firm Assets (\$ Millions)
2011	6.57	5.51	(5.50)	21.64	26.42	106	0.48	521	5,232
2012	9.97	8.88	18.05	16.24	20.17	120	0.35	474	6,545
2013	41.06	39.70	34.52	14.50	16.05	142	1.05	646	7,841
2014	3.05	2.02	4.22	13.06	12.98	149	0.52	581	7,989
2015	(0.16)	(1.15)	(7.47)	13.94	13.65	151	0.20	535	8,095
2016	26.74	25.50	31.74	14.30	15.72	141	1.13	711	9,989
2017	20.48	19.30	7.84	12.32	14.17	191	0.56	996	14,609
2018	(14.80)	(15.66)	(12.86)	14.42	15.98	152	0.35	895	17,840
2019	25.79	24.56	22.39	14.59	15.90	126	0.65	1,107	25,685
2020	29.87	28.60	4.63	22.11	26.49	121	1.00	1,835	39,582

The Russell 2000® Value 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, 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 Small Cap Quality Value Composite has had a performance examination for the period from January 1, 1999 through December 31, 2020. 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 fully discretionary institutional and pooled Small Cap Quality Value Portfolios. Small Cap Quality Value Portfolios are invested in equity securities with capitalizations consistent with the Russell 2000® Value 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® Value Index. The Russell 2000® Value Index is a market capitalization-weighted index of value-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 independent verifiers. The inception date of the composite is June 1998. The composite was created in June 1998. 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.

As of January 1, 2011, the composite was redefined to include both institutional and mutual fund [or pooled] accounts.

The model management fee used for the net returns in this table is 1.00% for all periods presented. The standard Institutional management fee schedule currently in effect is as follows: 1.00% for the first \$25 million; 0.80% on the next \$25 million; 0.70% on the balance. The maximum Wealth Advisory Services Fee

in effect is 1.30% for all assets, which breaks out as follows: 1.00% for the first \$3 million; 0.80% on the next \$2 million; 0.70% on the next \$5 million; 0.60% on the balance; with an additional 0.30% for any assets invested in separately managed accounts strategies. The standard investment advisory fee schedule currently in effect for clients not engaging in Wealth Advisory Services is 1.00%. 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 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, no dispersion measure is presented. The three-year annualized ex-post standard deviation measures the variability of the composite (using gross returns) and the benchmark for the 36-month period.