

## Mid Cap Sustainable Growth Portfolio

Second Quarter 2021

### Portfolio Overview

The Mid Cap Sustainable Growth portfolio delivered positive performance but underperformed the Russell Midcap Growth Index in the second quarter. Poor stock selection and an overweight in consumer discretionary and poor stock selection and an underweight in communication services detracted from performance. An underweight in materials and good stock selection in information technology contributed positively to performance.

The biggest contributors to performance during the quarter were DocuSign and Bill.com. DocuSign's shares were strong for most of 2020 and hit a new high in June after the company reported potentially its best ever quarter, with accelerated growth and strong revenue gains and operating margins well ahead of consensus expectations. Bill.com is moving up market, leveraging partnerships with a number of the largest financial institutions in the world and building differentiated integrations with some of the most important software providers for mid-market customers. The company continues to grow average revenue per user from adoption of higher margin cross border (for international vendors) and virtual card (check alternative) offerings. Other top contributors included Avalara, POOLCORP, and Equifax.

The biggest detractors from the portfolio during the quarter were Autohome and New Oriental Education & Technology. Autohome has been struggling for nearly three years now from a myriad of factors and strategy pivots, including heavy promotion spending in 2019 against a backdrop of soft auto demand and a complete change in pricing strategy in 2020. Over the last year, competition has intensified for its core customers. Furthermore, electric vehicles (EV) are gaining popularity in China. EV buying decisions revolve more around aesthetic features than performance features which is a focus of many of the content creators on Autohome. Additionally, EV original equipment manufacturers are increasingly selling direct to consumers which impacts Autohome's traditional dealer customers. With the competitive advantages we saw in Autohome eroding and the end market increasingly soft, we sold our position. Declines accelerated this quarter for New Oriental Education as it became increasingly clear that the Chinese government is unhappy with the state of the tutoring market. The government is looking to dramatically reduce the need and amount of after school tutoring allowed in the country, and is likely to improve school curriculum, ban tutoring on weekends and holidays, limit the volume and type of advertising the institutions are allowed to do, and curtail how far in advance tuition can be paid. If taken into effect, this industry will likely never be the same. Other bottom contributors include DraftKings, MarketAxess Holdings, and The Trade Desk.

### Outlook

Despite elevated valuations, we believe investors should stay the course and remain invested. Price/earnings (PE) ratios are higher than normal, but this is not unusual when earnings are rapidly recovering and corporate earnings were strong in the first quarter. Ironically, PE ratios may decline as the earnings recovery unfolds. However, as long as earnings growth exceeds multiple contractions, we believe returns should be favorable for investors. As always, our focus remains on high quality businesses regardless of the current economic regime. We believe competitive protections and differentiation are the key investment metrics that matter the most over the long term.

### Purchases and Sales

#### New Purchases

Acuity Brands

Treace Medical Concepts

#### Complete Sales

Autohome



### Portfolio Highlights

**Style:** Mid Cap  
**Sub-Style:** Growth  
**Index:** Russell Midcap<sup>®</sup> Growth  
**Portfolio Assets:** \$3,593.6 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

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

### Top Five Holdings

As of June 30, 2021

Company	Percent of equity (%)
MercadoLibre	5.7
Bill.com	4.9
DocuSign	4.4
Avalara	3.8
The Trade Desk	3.6
<b>Total</b>	<b>22.3</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>Qualitative 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>
Higher Quality		Stronger, More Consistent Growth	

## Portfolio Characteristics

As of June 30, 2021

	KAR Mid Cap Sustainable Growth	Russell Midcap <sup>®</sup> Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	18.7%	17.1%
Total Debt/EBITDA	3.6 x	3.5 x
Earnings Variability—Past 10 Years	41.2%	55.9%
<b>Growth</b>		
Sales Per Share Growth—Past 5 Years	18.8%	12.8%
Earnings Per Share Growth—Past 5 Years	20.1%	19.4%
Earnings Per Share Growth—Past 10 Years	15.8%	12.5%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	331.8 x	96.8 x
P/E Ratio—1 Year Forecast FY EPS	42.7 x	32.5 x
Free Cash Flow Yield*	1.3%	2.0%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap	\$30.2 B	\$27.3 B
Largest Market Cap	\$111.0 B	\$60.8 B

\*Free cash flow data is as of March 31, 2021. Prices are as of June 30, 2021. Excludes financials.

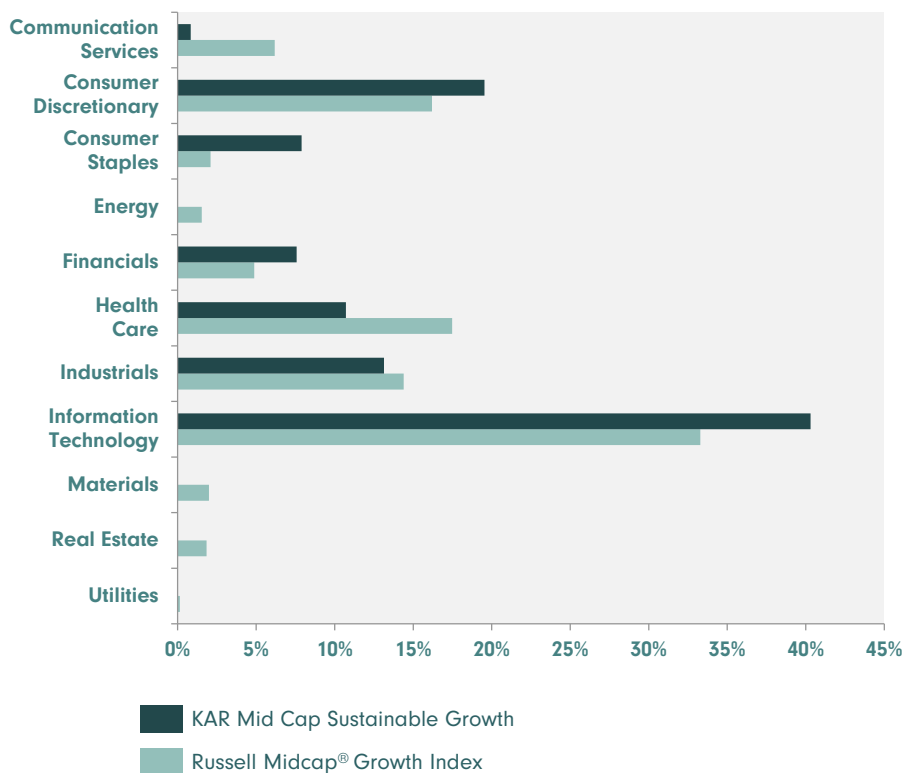
Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. **Past performance is no guarantee of future results.**

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Second Quarter 2021

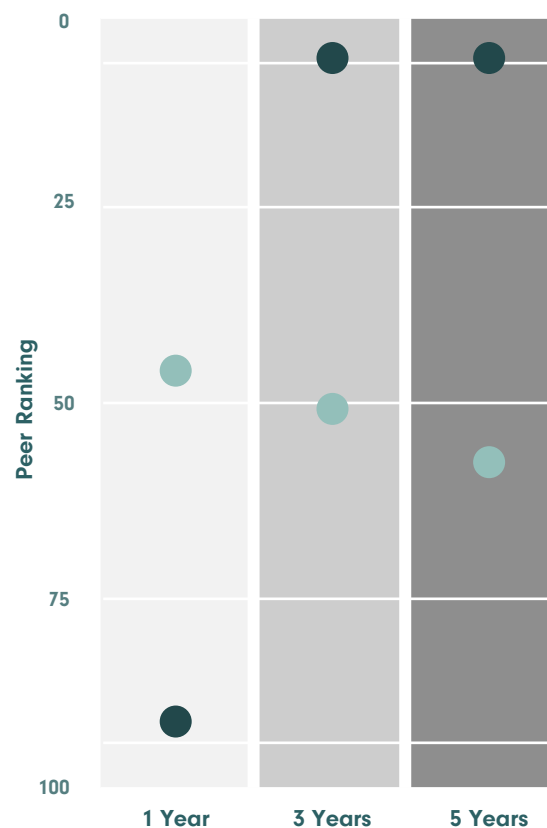
## Sector Diversification

As of June 30, 2021



## Peer Comparison Chart

Annualized Gross Returns Ending June 30, 2021



## Historical Returns

	KAR Mid Cap Sustainable Growth (gross)	KAR Mid Cap Sustainable Growth (net) <sup>‡</sup>	Russell Midcap Growth Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of June 30, 2021			
2 <sup>nd</sup> Quarter	7.89	7.68	11.07
Year to Date	3.20	2.79	10.44
One Year	35.74	34.68	43.77
Three Years	30.35	29.33	22.39
Five Years	30.16	29.15	20.52
Seven Years	22.79	21.82	15.39
Inception*	20.72	19.77	17.32
<b>Annual Returns (%)</b>			
2020	67.52	66.24	35.59
2019	44.29	43.18	35.47
2018	9.04	8.17	(4.75)
2017	35.26	34.21	25.27
2016	3.27	2.45	7.33
2015	4.06	3.24	(0.20)
2014	4.98	4.15	11.90
2013	26.46	25.47	35.74
2012	13.97	13.07	15.81

● KAR Mid Cap Sustainable Growth  
● Russell Midcap Growth Index

## Performance Statistics

Inception\* to June 30, 2021

	KAR Mid Cap Sustainable Growth <sup>§</sup>	Russell Midcap Growth Index
Annualized Standard Deviation	16.42	15.20
Beta	0.99	1.00
Sharpe Ratio	1.23	1.10
R-Squared	84.60	100.00

\*January 1, 2012

<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 0.75% 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. 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 from FactSet Research Systems and is assumed to be reliable. **Past performance is no guarantee of future results.**

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### Disclosure

Year	Composite Gross Return (%)	Composite Net Return (%)	Russell Midcap® 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	13.97	13.07	15.81	N/A	N/A	< 5	N/A	82	6,545
2013	26.46	25.47	35.74	N/A	N/A	< 5	N/A	93	7,841
2014	4.98	4.15	11.90	11.25	11.02	< 5	N/A	90	7,989
2015	4.06	3.24	(0.20)	13.28	11.47	< 5	N/A	88	8,095
2016	3.27	2.45	7.33	14.38	12.35	< 5	N/A	83	9,989
2017	35.26	34.21	25.27	13.14	11.04	< 5	N/A	98	14,609
2018	9.04	8.17	(4.75)	14.52	13.00	7	N/A	172	17,840
2019	44.29	43.18	35.47	15.87	14.07	38	0.19	688	25,685

The Russell Midcap® Growth 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, 2019.

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. The Mid Cap Sustainable Growth Composite has been examined for the period from January 1, 2012 through December 31, 2019. The verification and performance examination reports are available upon request.

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 Mid Cap Sustainable Growth Portfolios. Mid Cap Sustainable Growth Portfolios are invested in equity securities with market capitalizations consistent with the Russell Midcap® 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 Midcap® Growth Index. The Russell Midcap® Growth Index is a market capitalization-weighted index of growth-oriented stocks 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 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 < 1% of the composite assets at year-end from 2012 through 2019.

The standard management fee schedule currently in effect is 0.80% per annum. 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, 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.