

## Equity Income Portfolio

Second Quarter 2022

### Portfolio Review

The Equity Income portfolio outperformed the MSCI USA High Dividend Yield Index in the second quarter. An underweight and good stock selection in information technology and good stock selection in financials contributed positively to performance. An underweight and poor stock selection in health care and poor stock selection in communication services detracted from performance.

The biggest contributors to performance during the quarter were Kellogg and IBM.

- Kellogg reported good results in a tough environment and a plan to separate into three separate companies that was well received by investors and contributed to strong performance during the quarter.
- IBM saw strong demand for its hybrid cloud-based software offerings. We believe the company's customers realize the importance of these offerings to their future success.
- Other top contributors included Amcor, BAE Systems, and Merck.

The biggest detractors from the portfolio during the quarter were Omnicom and Cisco Systems.

- Omnicom was weak due to concerns about advertising spend during a potential recession.
- Cisco Systems experienced supply challenges, and the company's exposure to Russia and the impact of the war in Europe weighed on revenue and orders.
- Other bottom contributors included Eastman Chemical, Watsco, and MSC Industrial Direct.

### 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.

### Purchases and Sales

#### New Purchases

Pinnacle West Capital

VF

#### Complete Sales

Home Depot

### Portfolio Highlights

**Style:** Large Cap

**Index:** MSCI® U.S. High Dividend Yield Index

**Portfolio Turnover:** 25%–45%

**Number of Holdings:** 25–50

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	36
<b>Richard Sherry, CFA</b> Portfolio Manager + Senior Research Analyst	24
<b>Chris Armbruster, CFA</b> Senior Research Analyst	17
<b>Noran Eid</b> Research Analyst	9

### Top 10 Holdings

As of June 30, 2022

Company	Percent of equity (%)
Verizon	4.7
Omnicom Group	4.7
International Business Machines	4.5
Zurich Insurance Group	4.4
Amcor	4.3
Kellogg Company	3.9
BAE Systems	3.8
MSC Industrial Direct	3.8
Pfizer	3.7
Bank of Hawaii	3.7
<b>Total</b>	<b>41.6</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.***

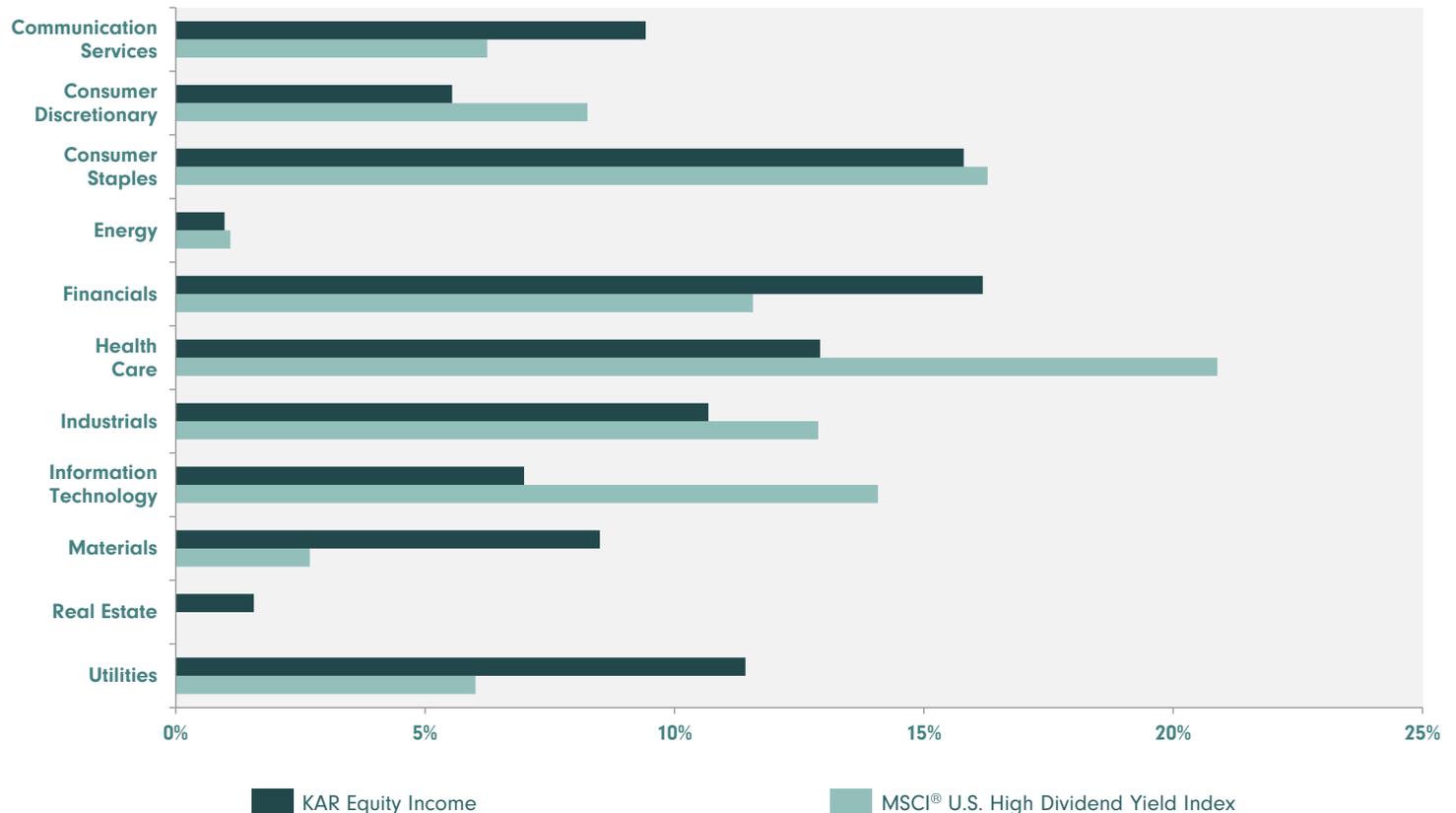
## Investment Process: Discovering Quality

Development of High-Quality Universe	Proprietary Fundamental Research	Portfolio Construction	Sell Discipline
<p><b>KAR Universe</b></p> <p><b>Typical Quantitative Screens</b></p> <ul style="list-style-type: none"> <li>Investment-grade balance sheet</li> <li>Market cap &gt; \$1.0 billion</li> <li>5-year average ROE &gt; 7.5%</li> <li>No dividend cut the last five years (under normal market conditions)</li> </ul> <p><b>Other Resources</b></p> <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>	<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 45%</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>Potential dividend cut</b></p> <p><b>Balance sheet deterioration</b></p> <p><b>Inability to cover dividend via internal cash generation over medium-to-long term</b></p>



## 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.

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## Portfolio Characteristics

As of June 30, 2022

	KAR Equity Income	MSCI® U.S. High Dividend Yield Index
<b>Quality</b>		
Return on Equity—Past 5 Years	25.4%	23.4%
Debt Coverage	7.6 x	9.5 x
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	5.7%	11.0%
Dividend Per Share Growth—Past 5 Years	5.3%	9.7%
<b>Value</b>		
Dividend Yield	3.7%	3.1%
<b>Market Characteristics</b>		
Dividend Payout Ratio—5 Year Average	68.7%	57.6%
\$ Weighted Average Market Cap	\$94.2 B	\$150.4 B
Largest Market Cap	\$467.1 B	\$467.1 B

## Historical Returns

	KAR Equity Income (gross)	KAR Equity Income (net) <sup>†</sup>	MSCI® U.S. High Dividend Yield Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of June 30, 2022			
2 <sup>nd</sup> Quarter	(3.83)	(3.98)	(7.65)
Year to Date	(3.74)	(4.03)	(9.23)
One Year	2.32	1.71	(1.69)
Inception*	15.64	14.90	11.83
<b>Annual Returns (%)</b>			
2021	18.49	17.75	20.86
2020 <sup>§</sup>	20.10	19.56	16.14

\*May 1, 2020

<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 0.70% 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 calculations are for the eight months ended December 31, 2020.

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. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. 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 Gross Return (%)	Composite Net Return (%)	MSCI® USA High Dividend Yield Index (net) Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Number of Accounts	Internal Dispersion (%)	Composite Assets (\$ Millions)	Total Firm Assets (\$ Millions)
2020*	20.10	19.56	16.14	N/A	N/A	< 5	N/A	235	39,582

\*2020 performance numbers in this table reflect the composite inception date of May 1, 2020 through December 31, 2020. The MSCI® USA High Dividend Yield Index is a trademark/service mark of MSCI®. MSCI® is a trademark of MSCI Inc.

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. The verification reports are available upon request.

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. Verification does not provide assurance on the accuracy of any specific performance report.

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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 fully discretionary institutional and pooled Equity Income Portfolios. Equity Income Portfolios are primarily invested in U.S. equity securities of high-quality companies that pay sustainable dividends. For comparison purposes, the composite is measured against the MSCI® USA High Dividend Yield Index (net). The MSCI® USA High Dividend Yield Index is designed to reflect the performance in the MSCI® USA Index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent. Benchmark returns are not covered by the report of the independent verifiers. The inception date of the composite is May 2020. The composite was created in May 2020. 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.

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 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 because 36 monthly composite returns are not available.