

## Small Cap Quality Value Portfolio

Third Quarter 2021



### Portfolio Review

The Small Cap Quality Value portfolio underperformed the Russell 2000 Value Index in the third quarter. Poor stock selection in materials and poor stock selection and an overweight in consumer discretionary detracted from performance. Good stock selection in information technology and an underweight in communication services contributed positively to performance.

The biggest contributors to performance during the quarter were SiteOne Landscape Supply and Houlihan Lokey. SiteOne Landscape Supply underperformed last quarter as investors worried about the forward growth of the business despite the company reporting a good quarter. This quarter, some of those worries dissipated as the company continues to see good organic daily sales and improving margins. Houlihan Lokey's shares rose in the quarter as the pickup in mergers and acquisitions that started late last year continued in 2021. This positive backdrop enabled the company to report strong revenue growth, and one of the best quarters in the firm's history. Strong top-line growth, coupled with expense control, resulted in profits more than doubling in the quarter. Other top contributors included Brooks Automation, Thor Industries, and Stock Yards Bancorp.

The biggest detractors to performance were Latham Group and Scotts Miracle-Gro. The current inflationary environment is pressuring Latham's business margins as the company works through its backlog, which weighed on shares during the quarter. Scotts Miracle-Gro's shares declined as the company experienced a slowdown in the second half of the year as well as cost inflation and an oversupply of cannabis in California. Other bottom detractors included Leslie's, The Cheesecake Factory, and Albany International.

### Purchases and Sales

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

### Outlook

We believe the two most important variables affecting equity markets are interest rates and corporate profitability. The Federal Reserve will start tapering their purchases of bonds next month, but this has been well telegraphed to investors. Relatively benign interest rates and strong corporate profitability are a prescription for rising equity prices over time. However, we believe investors should expect a more selective market going forward and more muted equity returns. It is more likely that we will continue to grow but at a more moderate and sustainable pace. We believe this should be an environment where stocks of high-quality businesses can perform well.

### Portfolio Highlights

**Style:** Small Cap  
**Sub-Style:** Value  
**Index:** Russell 2000® Value  
**Portfolio Inception:** 1998  
**Portfolio Assets:** \$7,074.9 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	35
<b>Julie Kutasov</b> Portfolio Manager + Senior Research Analyst	20
<b>Craig Stone</b> Portfolio Manager + Senior Research Analyst	32
<b>Todd Beiley, CFA</b> Senior Research Analyst	22
<b>Julie Biel, CFA</b> Senior Research Analyst	13
<b>Jon Christensen, CFA</b> Senior Research Analyst	26
<b>Chris Wright, CFA</b> Senior Research Analyst	9
<b>Sean Dixon</b> Research Analyst	12
<b>Adam Xiao, CFA</b> Research Analyst	6

### Top Five Holdings

As of September 30, 2021

Company	Percent of equity (%)
Brooks Automation	6.2
SiteOne Landscape Supply	5.6
Houlihan Lokey	5.2
Thor Industries	5.0
Scotts Miracle-Gro	4.8
<b>Total</b>	<b>26.8</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

<b>Development of 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>

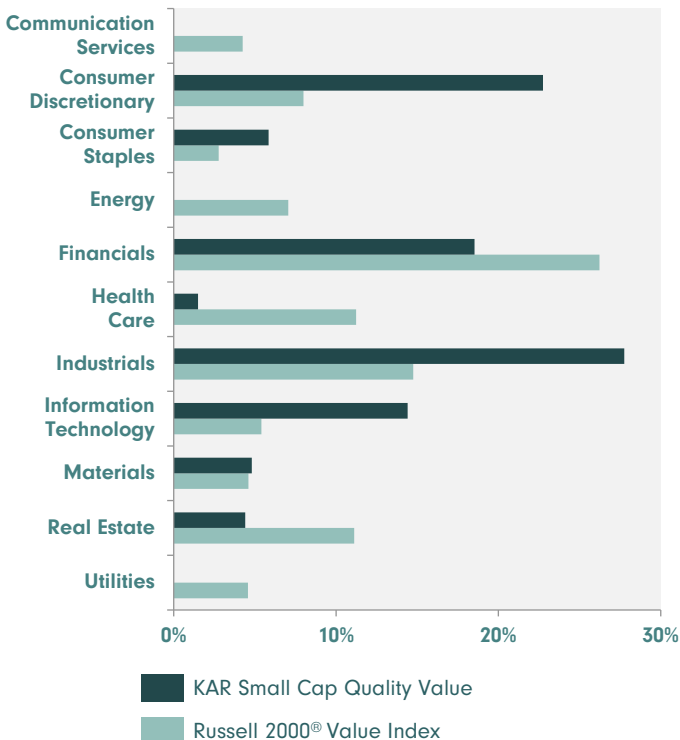
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of September 30, 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.

## Portfolio Characteristics

As of September 30, 2021

	KAR Small Cap Quality Value	Russell 2000 Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	23.5%	7.7%
Total Debt/EBITDA	1.6 x	6.3 x
Earnings Variability—Past 10 Years	42.7%	81.2%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	12.7%	8.7%
Earnings Per Share Growth—Past 10 Years	6.6%	6.4%
Dividend Per Share Growth—Past 5 Years	8.8%	1.8%
Dividend Per Share Growth—Past 10 Years	11.9%	5.8%
Capital Generation—{ROE x (1-Payout)}	14.8%	5.8%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	27.0 x	28.8 x
Dividend Yield	1.1%	1.6%
Free Cash Flow Yield <sup>†</sup>	4.3%	3.8%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$4.3 B	\$2.2 B
Largest Market Cap—3-Year Avg.	\$11.9 B	\$10.9 B
Annualized Standard Deviation—Since Inception <sup>‡</sup>	16.7%	19.3%

<sup>†</sup>Free cash flow data is as of June 30, 2021. Prices are as of September 30, 2021. Excludes financials.

<sup>‡</sup>June 1, 1998

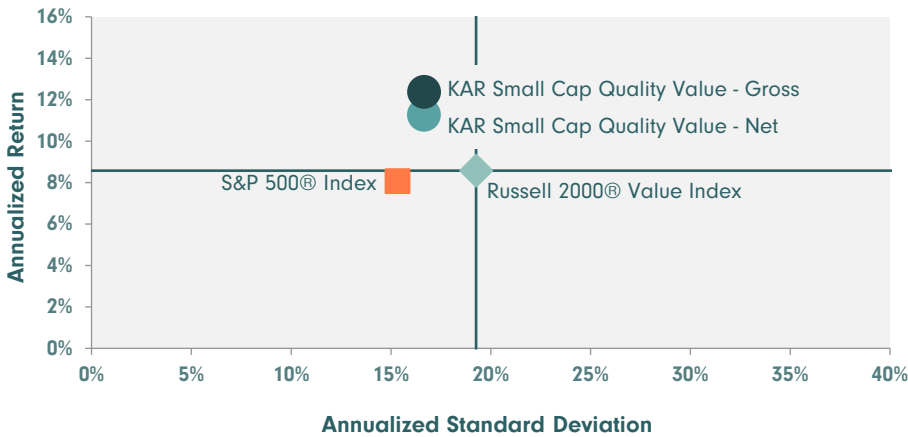
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. **Past performance is no guarantee of future results.**

# Small Cap Quality Value Portfolio

Third Quarter 2021

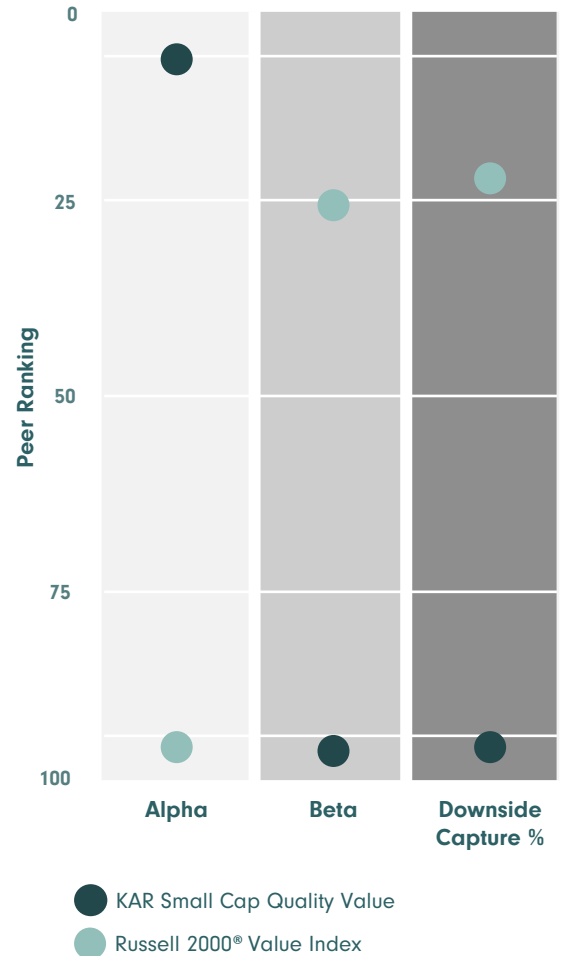
## Strong Risk-Adjusted Returns

Inception\* to September 30, 2021



## Peer Comparison Chart

Inception\* to September 30, 2021



## Historical Returns

	KAR Small Cap Quality Value (gross)	KAR Small Cap Quality Value (net) <sup>‡</sup>	Russell 2000® Value Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of September 30, 2021			
3 <sup>rd</sup> Quarter	(3.25)	(3.49)	(2.98)
Year to Date	12.37	11.54	22.92
One Year	39.33	37.98	63.92
Three Years	14.60	13.47	8.58
Five Years	16.06	14.92	11.03
Seven Years	14.97	13.84	10.19
Ten Years	15.61	14.47	13.22
Inception*	12.38	11.27	8.58

	KAR Small Cap Quality Value (gross)	KAR Small Cap Quality Value (net) <sup>‡</sup>	Russell 2000® Value Index
<b>Annual Returns (%)</b>			
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)	(1.16)	(7.47)
2014	3.05	2.00	4.22
2013	41.06	39.72	34.52
2012	9.97	8.87	18.05
2011	6.57	5.54	(5.50)
2010	25.10	23.88	24.50
2009	26.97	25.73	20.58
2008	(28.51)	(29.26)	(28.92)
2007	2.19	1.18	(9.78)
2006	24.45	23.25	23.48
2005	8.88	7.79	4.71
2004	28.10	26.83	22.25
2003	21.88	20.69	46.03
2002	1.11	0.10	(11.43)
2001	19.42	18.29	14.02
2000	24.92	23.70	22.83
1999	(7.69)	(8.60)	(1.49)
1998 <sup>  </sup>	9.61	9.07	(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.

<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.**

## Performance Statistics

Inception\* to September 30, 2021

	KAR Small Cap Quality Value <sup>§</sup>	Russell 2000® Value Index
Annualized Standard Deviation	16.66	19.26
Alpha	5.08	0.00
Beta	0.76	1.00
Sharpe Ratio	0.64	0.35
R-Squared	77.27	100.00

## Small Cap Quality Value Portfolio

Third Quarter 2021

### 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)
2010	25.10	23.88	24.50	24.43	28.77	77	0.60	98	4,729
2011	6.57	5.54	(5.50)	21.64	26.42	106	0.48	521	5,232
2012	9.97	8.87	18.05	16.24	20.17	120	0.35	474	6,545
2013	41.06	39.72	34.52	14.50	16.05	142	1.05	646	7,841
2014	3.05	2.00	4.22	13.06	12.98	149	0.52	581	7,989
2015	(0.16)	(1.16)	(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

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, 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 Small Cap Quality Value Composite has been examined for the period from January 1, 1999 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 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 composite was created in June 1998. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

As of January 1, 2011, the composite was redefined to include both institutional and mutual fund [or pooled] accounts. Previously, only institutional accounts were included. Prior to January 1, 2011, the composite minimum was \$250,000, and accounts that experienced a significant cash flow, defined as aggregate flows that exceeded 25% of the account's beginning of period market value, were temporarily removed from the composite.

The standard 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. 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.