

## Mid Cap Core Portfolio

Third Quarter 2022

### Portfolio Review

The Mid Cap Core portfolio performed in line with the Russell Midcap Index in the third quarter. Good stock selection in financials and consumer staples contributed positively to performance. Poor stock selection and an overweight in health care and poor stock selection in consumer discretionary detracted from performance.

The biggest contributors to performance during the quarter were Aspen Technology and Ross Stores. In the most recent quarter, Aspen Technology reported substantive revenue growth, margin improvement, and positive new business opportunities. After the prior quarter saw same store sales and profit declines due to difficult prior year comparisons and execution issues, Ross Stores reported better-than-expected profit margins in the current quarter, causing the stock to rebound. Other top contributors included LPL Financial, Lamb Weston, and HEICO.

The biggest detractors from the portfolio during the quarter were Azenta and West Pharmaceutical Services. Azenta faced some temporary headwinds in the most recent quarter. The company's results benefited from COVID, which has declined naturally as the pandemic winds down. Results were also negatively impacted by COVID-closures in China reducing demand for the company's Life Sciences Services. West Pharmaceutical Services' COVID-related revenue declined more precipitously than expected and guidance called for a material decline in 2023. Other bottom contributors included Domino's Pizza, Cooper Companies, and Zebra Technologies.

### Purchases and Sales

During the quarter, there were no new purchases. We sold Elanco Animal Health and Latham Group. Since our last increase in Elanco Animal Health over three years ago, the business has not met our expectations in terms of operational execution and competitive strategies. The company experienced several missteps in an acquisition at a time when its financial position needed fortification after its IPO. More recently, the company's innovation pipeline experienced several delays, and the company demonstrated an inability to deploy price increases efficiently. Given all these considerations, we sold our position. Latham's business has seen difficulty as inflationary pressures on its cost of goods has weakened its margins. The shares have followed and have been under pressure for some time. With the market cap being well below \$1 billion and given the position's lower weight in the portfolio, we sold our shares.

### Outlook

We believe the plethora of bad news has led the stock market to a price level that already discounts a shallow-to-mild recession. However, simply put, equities will not bottom out until long-term bond yields (10 to 30 year) stop increasing. It was not a coincidence that stocks rallied from the middle of June until the middle of August when long-term yields were declining. We need a sustained decline in reported inflation statistics for this to happen. This seems likely at some point over the next six-to-twelve months. Monetary policy is working—raw material prices are falling (including oil); housing and autos are being hit hard (including used car prices and even new recently); semiconductors have turned from a shortage to a surplus in many areas; and many companies are starting to shed workers. Supply chain difficulties, which the Fed cannot directly control, are improving as well, but the Russian war and China's zero-COVID policy continue to create some supply difficulties. Given pessimistic investor sentiment, bearish positioning, and many attractively valued companies on a long-term basis, any better-than-feared news on the course of future interest rate increases could cause the markets to substantially improve from here. Historically, periods of stock market pessimism with zero speculation in them have been good long-term entry points for patient investors.

### Portfolio Highlights

**Style:** Mid Cap  
**Sub-Style:** Core  
**Index:** Russell Midcap®  
**Portfolio Inception:** 2000  
**Portfolio Assets:** \$2,261.2 M\*  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	36
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	27
<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>Julie Kutsov</b> Senior Research Analyst	21
<b>Chris Wright, CFA</b> Senior Research Analyst	10
<b>Sean Dixon</b> Research Analyst	14
<b>Arthur Su, CFA</b> Research Analyst	7
<b>Adam Xiao, CFA</b> Research Analyst	9

### Top Five Holdings

As of September 30, 2022

Company	Percent of equity (%)
AMETEK	5.7
Aspen Technology	5.7
Lamb Weston	5.0
Globus Medical	4.9
W. R. Berkley	4.7
<b>Total</b>	<b>26.0</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. 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 KAR 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>

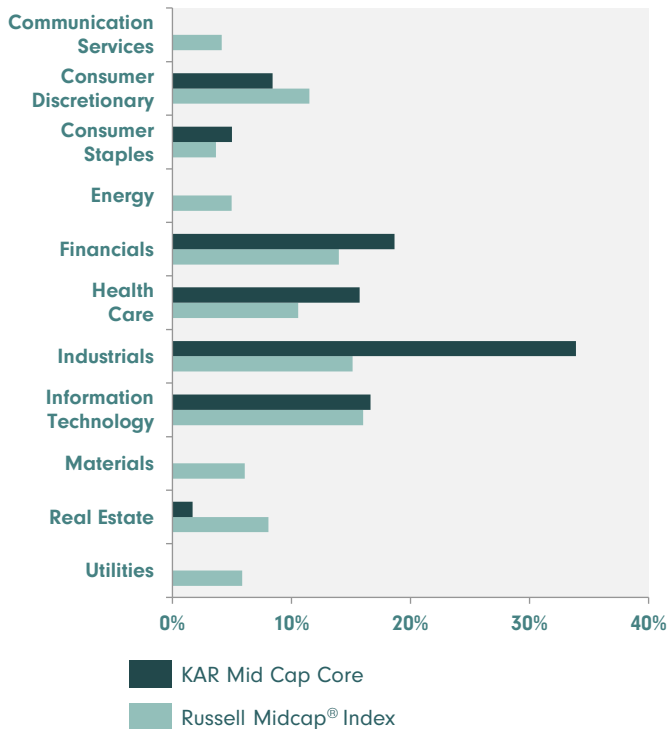
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of September 30, 2022



## Portfolio Characteristics

As of September 30, 2022

	KAR Mid Cap Core	Russell Midcap® Index
<b>Quality</b>		
Return on Equity—Past 5 Years	22.9%	16.8%
Total Debt/EBITDA	2.0 x	4.9 x
Earnings Variability—Past 10 Years	39.9%	61.4%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	16.4%	13.3%
Earnings Per Share Growth—Past 10 Years	13.0%	10.7%
Dividend Per Share Growth—Past 5 Years	10.8%	6.8%
Dividend Per Share Growth—Past 10 Years	9.1%	9.0%
Capital Generation—{ROE x (1-Payout)}	16.4%	12.1%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	26.6 x	19.4 x
Dividend Yield	0.9%	1.8%
Free Cash Flow Yield*	2.1%	3.5%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$15.5 B	\$20.1 B
Largest Market Cap—3-Year Avg.	\$47.0 B	\$62.3 B
Annualized Standard Deviation—Since Inception†	14.9%	17.5%

\*Free cash flow data is as of June 30, 2022. Prices are as of September 30, 2022. Excludes financials.

†January 1, 2000. Standard deviation for the KAR strategy is based on net-of-fee returns.

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.

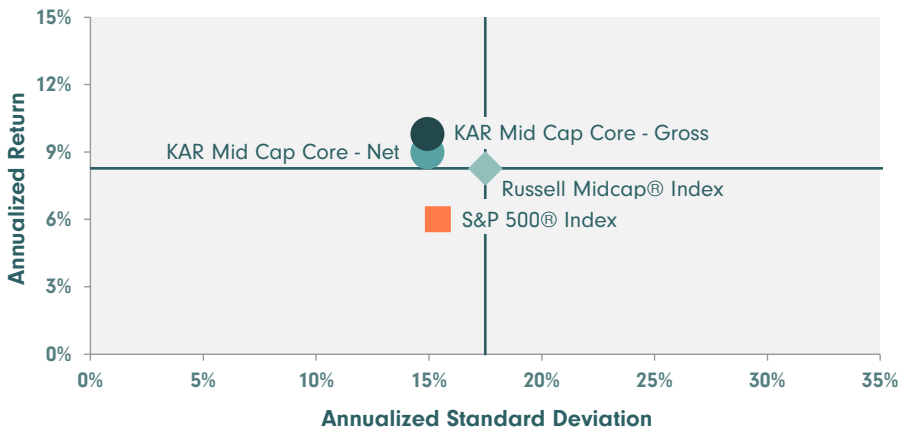
Holdings are subject to change. Holdings and weightings are based on a representative portfolio. Individual Investors' holdings may differ slightly. The sector information represented above is based on GICS sector classifications. Data is obtained by FactSet Research Systems and is assumed to be reliable.

# Mid Cap Core Portfolio

Third Quarter 2022

## Risk-Return Analysis

Inception\* to September 30, 2022



## Historical Returns

	KAR Mid Cap Core (gross)	KAR Mid Cap Core (net) <sup>†</sup>	Russell Midcap <sup>®</sup> Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of September 30, 2022			
3 <sup>rd</sup> Quarter	(3.10)	(3.29)	(3.44)
Year to Date	(26.45)	(26.88)	(24.27)
One Year	(20.13)	(20.74)	(19.39)
Three Years	8.36	7.55	5.19
Five Years	10.51	9.69	6.48
Seven Years	12.59	11.75	8.79
Ten Years	13.21	12.37	10.30
Inception*	9.81	9.00	8.27
<b>Annual Returns (%)</b>			
2021	26.42	25.49	22.58
2020	27.08	26.15	17.10
2019	32.17	31.20	30.54
2018	(3.21)	(3.93)	(9.06)
2017	26.13	25.21	18.52
2016	12.32	11.49	13.80
2015	3.37	2.60	(2.44)
2014	18.17	17.29	13.22
2013	28.54	27.60	34.76
2012	16.58	15.72	17.28
2011	4.52	3.74	(1.55)
2010	20.23	19.34	25.48
2009	21.11	20.22	40.48
2008	(28.63)	(29.18)	(41.46)
2007	6.45	5.66	5.60
2006	13.05	12.21	15.26
2005	8.86	8.05	12.65
2004	15.23	14.38	20.22
2003	26.72	25.79	40.06
2002	(12.62)	(13.28)	(16.19)
2001	(2.76)	(3.49)	(5.62)
2000	21.54	20.64	8.25

\*January 1, 2000

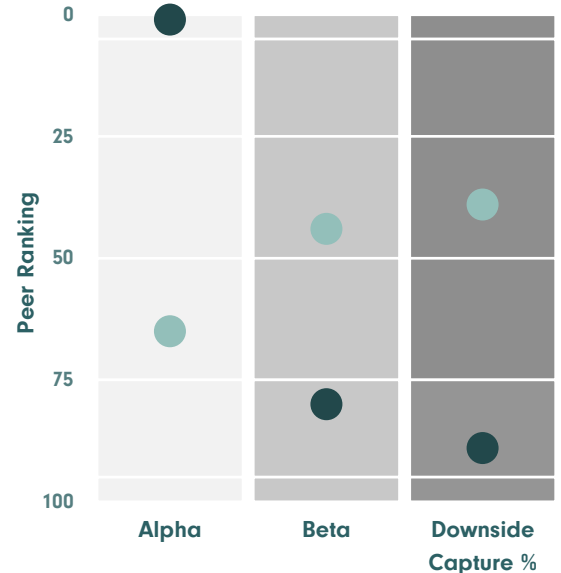
<sup>†</sup>All periods less than one year are total returns and are not annualized. Returns are preliminary. Returns could be reduced, or losses incurred, due to currency fluctuations.

<sup>†</sup>Net of all fees and expenses. Assumes a 0.75% 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.

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 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 is assumed to be reliable. **Past performance is no guarantee of future results.**

## Peer Comparison Chart

Ten Years Ending September 30, 2022



● KAR Mid Cap Core ● Russell Midcap<sup>®</sup> Index

The eVestment Mid Cap Core Universe includes 45 managers categorized in the mid cap core asset class by eVestment. KAR does not pay any fees to be included in the eVestment Mid Cap Core Universe or for the ranking itself. KAR does pay fees for the use of certain products and services provided by eVestment. eVestment rankings are based on gross of fee returns. Gross of fee returns will be reduced by investment management fees and other expenses that may be incurred in the management of the account. Management fees are described in KAR's Form ADV Part 2A, which is available upon request and can also be found at <https://kayne.com/wp-content/uploads/ADV-Part-2A.pdf>. Returns could be reduced or losses incurred due to currency fluctuations. **Past performance is no guarantee of future results.**

## Performance Statistics

Inception\* to September 30, 2022

	KAR Mid Cap Core (gross)	KAR Mid Cap Core (net)	Russell Midcap <sup>®</sup> Index
Annualized Standard Deviation	14.93	14.93	17.49
Alpha	2.66	1.90	0.00
Beta	0.79	0.79	1.00
Sharpe Ratio	0.56	0.50	0.39
R-Squared	86.57	86.57	100.00

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### Disclosure

Year	Composite Gross Return (%)	Composite Net Return (%)	Russell Midcap® Index Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Number of Accounts	Internal Dispersion (%)	Composite Assets (\$ Millions)	Firm Assets (\$ Millions)
2011	4.52	3.48	(1.55)	17.51	21.86	14	0.26	10	5,232
2012	16.58	15.44	17.28	15.39	17.44	15	0.18	11	6,545
2013	28.54	27.29	34.76	12.53	14.23	15	0.48	15	7,841
2014	18.17	17.01	13.22	10.29	10.29	12	0.13	17	7,989
2015	3.37	2.34	(2.44)	11.96	11.00	15	0.44	40	8,095
2016	12.32	11.21	13.80	12.31	11.72	22	0.36	79	9,989
2017	26.13	24.90	18.52	10.76	10.51	72	0.23	170	14,609
2018	(3.21)	(4.17)	(9.06)	11.33	12.15	181	0.30	352	17,840
2019	32.17	30.88	30.54	12.49	13.08	323	0.39	700	25,685
2020	27.08	25.84	17.10	18.88	22.13	362	1.03	1,214	39,582

The Russell Midcap® 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, 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 Mid Cap Core Composite has had a performance examination for the period from January 1, 2000 through December 31, 2020. The verification and performance examination reports are available upon request.

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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 Mid Cap Core Portfolios. Mid Cap Core Portfolios are invested in equity securities with market capitalizations consistent with the Russell Midcap® 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® Index. The Russell Midcap® Index is a market capitalization-weighted index 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 inception date of the composite is January 2000. The composite was created in January 2000. 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: 0.75% for the first \$25 million; 0.65% on the next \$25 million; 0.55% on the next \$50 million; 0.50% 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.

#### GLOSSARY

**Alpha:** A risk-adjusted measure of an investment's excess return relative to a benchmark. **Beta:** A quantitative measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. **R2:** A measure that represents the percentage of a fund or security's movements that can be explained by movements in a benchmark index. **Sharpe Ratio:** A risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. **Standard Deviation:** Measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk.

#### INDEX DEFINITION

The Russell Midcap® Index is a market capitalization-weighted index of medium-capitalization stocks of U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.