

## Small-Mid Cap Growth Portfolio

### Second Quarter 2024 | Managed Accounts

#### Portfolio Review

The Small-Mid Cap Growth portfolio outperformed the Russell 2500 Growth Index in the second quarter. Positive stock selection drove the outperformance this quarter, with sector selection having a de minimis effect. Positive stock selection in information technology and industrials contributed to performance during the quarter. Negative stock selection in health care and consumer staples detracted from performance. The portfolio also benefited from an overweight in lower beta stocks.

The biggest contributors to performance during the quarter were Copperleaf Technologies and Fair Isaac.

- Copperleaf's business showed improved momentum, with better sales growth and profitability. In June, however, the company announced it had entered into a definitive agreement to be acquired. The acquisition gives the company a larger platform to sell its novel technology.
- Fair Isaac's shares outperformed in the quarter as the company generated strong revenue and earnings growth and raised its outlook. Revenue growth was driven mostly by price increases for FICO scores. The company's software business also contributed despite some project deferrals and longer sales cycles. Regulatory concerns on FICO pricing practices have driven volatility, but we believe the company has helped address issues with transparency around its pricing philosophy.
- Other top contributors included HEICO, Tyler Technologies, and Ollie's Bargain Outlet.

The biggest detractors from performance during the quarter were Saia and SiteOne Landscape Supply.

- Despite Saia's strong first quarter, shares were down sharply in the second quarter. We believe investors have grown concerned that if the weak shipping environment continues, industry pricing could degrade.
- SiteOne Landscape Supply reported commodity price deflation negatively affecting both sales and margins. When Home Depot announced the acquisition of a private competitor to the company, investors became concerned about the company's competitive environment. These factors caused shares to underperform.
- Other bottom contributors included West Pharmaceutical Services, nCino, and Simpson Manufacturing.

#### Purchases and Sales

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

#### Outlook

It is always important to remember that no one can predict the macroeconomic environment with any regular accuracy. That is especially true right now. That said, until the Federal Reserve's most recent hiking cycle, the U.S. economy enjoyed 13 years of rates averaging 0.5%. This supported asset prices and made it easier for businesses, regardless of quality, to be successful. While we expect the Federal Reserve to eventually cut interest rates, we do not expect interest rates to return to 0%. Assuming interest rates settle at around 3-4%, that could have a profound impact on how companies operate and how assets are priced. We believe rates at this level may allow for quality companies with low leverage to better differentiate themselves to investors. Competitively advantaged businesses typically are better positioned to weather a more capital constrained environment.

#### Portfolio Highlights

**Style:** Small-Mid Cap  
**Sub-Style:** Growth  
**Index:** Russell 2500™ Growth  
**Portfolio Inception:** 2018  
**Portfolio Assets:** \$648.1 M\*  
**Portfolio Turnover:** 25%–35%

#### Investment Management Team

Name	Research Start Date
<b>Julie Biel, CFA</b> Portfolio Manager + Senior Research Analyst	2004
<b>Chris Wright, CFA</b> Portfolio Manager + Senior Research Analyst	2012
<b>Todd Bailey, CFA</b> Senior Research Analyst	1999
<b>Jon Christensen, CFA</b> Senior Research Analyst	1995
<b>Julie Kutasov</b> Senior Research Analyst	2001
<b>Craig Stone</b> Senior Research Analyst	1990
<b>Adam Xiao, CFA</b> Senior Research Analyst	2013
<b>Tyler Cantarano</b> Research Analyst	2017
<b>Sean Dixon</b> Research Analyst	2008
<b>Luke Longinotti, CFA</b> ESG Research Analyst	2020
<b>Arthur Su, CFA</b> Research Analyst	2015
<b>Clarissa Ali</b> Associate Research Analyst	2023

#### Top Five Holdings

As of June 30, 2024

Company	Percent of equity (%)
Fair Isaac	6.8
Ryan Specialty	6.2
HEICO	5.7
Copperleaf Technologies	5.6
West Pharmaceutical Services	4.7
<b>Total</b>	<b>29.1</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
<p><b>Quantitative Screens</b></p> <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> <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>Non-U.S. Holdings</b></p> <ul style="list-style-type: none"> <li>Up to 20%</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>Extended Valuation</b></p> <p><b>Portfolio Upgrade</b></p> <p><b>Acquisition Activity</b></p> <p><b>Negative Company or Industry Changes</b></p>

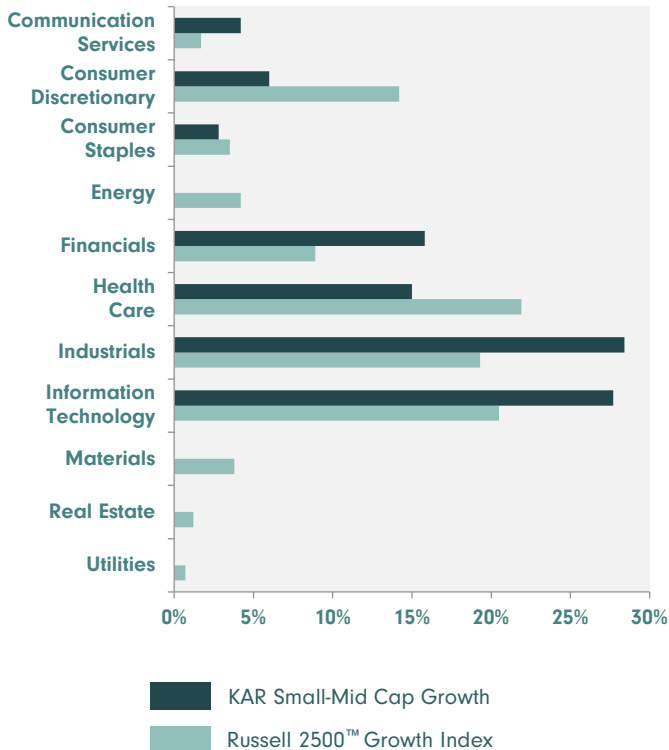
Seeking Higher Quality

Seeking Stronger, More Consistent Growth

Seeking Better Value

## Sector Diversification

As of June 30, 2024



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 June 30, 2024

	KAR Small-Mid Cap Growth	Russell 2500™ Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	18.2%	15.4%
Debt/EBITDA*	1.4 x	1.5 x
Earnings Variability—Past 10 Years	46.6%	69.8%
<b>Growth</b>		
Earnings Per Share Growth—Past 10 Years	12.9%	14.7%
Capital Generation—{ROE x (1-Payout)}	15.5%	13.5%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	66.4 x	48.7 x
Free Cash Flow Yield†	1.9%	2.4%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap.	\$14.5 B	\$8.4 B
Largest Market Cap	\$38.9 B	\$47.4 B

\*KAR utilizes the interquartile method when calculating Debt/EBITDA. The interquartile method excludes outliers from an aggregate statistic such as weighted average. The interquartile method does not assume that data from the top or bottom of the distribution are outliers—only the extreme ends are excluded—and that it can be applied consistently as a quantitative method for most fundamental characteristics. Debt/EBITDA utilizes net debt for the calculation.

†Free cash flow data is as of March 31, 2024. Prices are as of June 30, 2024. 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.**

**IMPORTANT RISK CONSIDERATIONS: Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small, medium, or large-sized companies may enhance that risk. **Limited Number of Investments:** Because the portfolio has a limited number of securities, it may be more susceptible to factors adversely affecting its securities than a portfolio with a greater number of securities. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended.