



Kayne Anderson Rudnick  
Investment Management

A VIRTUS INVESTMENT PARTNER

Small Cap Quality Value Portfolio  
Managed Accounts  
Second Quarter 2024 Review



1984 - 2024

Celebrating 40 Years  
of Quality

[kayne.com](http://kayne.com)

2000 Avenue of the Stars, Suite 1110 Los Angeles, CA 90067 T 800.231.7414

# Firm Overview

As of June 30, 2024



Kayne Anderson Rudnick  
Investment Management

## Profile

- Originally established to manage founder capital
- Over three decades of experience
- A differentiated “business analyst” investment approach focusing on high-quality businesses†
- A disciplined and repeatable investment process that produces high-conviction portfolios
- A wholly owned, independent subsidiary of Virtus Investment Partners

## At a Glance

Year Founded	1984
Headquarters	Los Angeles, CA
AUM	\$62.9 billion*
Number of Equity Investment Professionals	22
Average Investment Experience	16 Years

\*Figures in USD.

†Please refer to the “Tenets of Quality: Our Quality Business Assessment” slide later in this presentation for KAR’s definition of high-quality businesses.

### Investment Philosophy

We believe that purchasing high-quality businesses with competitive protections at attractive valuations will achieve excess returns over a complete market cycle

### Investment Objectives

- To achieve a return meaningfully above that of the Russell 2000® Value Index
- To achieve this return objective with a portfolio that exhibits lower overall risk characteristics\*



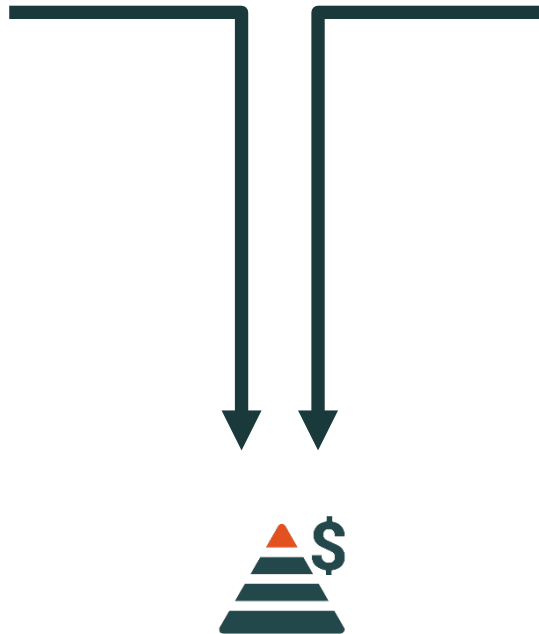
## Competitive Protection

- Brand/Reputation
- Network Effect
- Scale/Cost Advantage
- Benchmarking Standard
- High Customer Switching Costs
- Barriers to Entry/Unique Asset
- Low Obsolescence Risk



## Owner-Oriented Management

- Cultivates Competitive Advantage
- Rational Capital Allocation
- Considers Stakeholder Interests



## HIGH QUALITY BUSINESS

- Protect and Grow Market Share
- High Economic Return on Capital
- Business Returns → Shareholder Returns

# Small Cap Quality Value Team



Kayne Anderson Rudnick  
Investment Management

<b>Portfolio Manager/Analysts</b>	<b>Responsibility</b>	<b>Research Start Date</b>	<b>KAR Start Date</b>
<b>Julie Kutasov</b>	Portfolio Manager and Senior Research Analyst Sector Coverage: Materials, Industrials and Utilities	2001	2001
<b>Craig Stone</b>	Portfolio Manager and Senior Research Analyst Sector Coverage: Real Estate and Consumer Staples	1990	2000
<b>Todd Beiley, CFA</b>	Senior Research Analyst Sector Coverage: Financials (Insurance Industry) and Information Technology	1999	2002
<b>Julie Biel, CFA</b>	Senior Research Analyst Sector Coverage: Information Technology and Health Care	2004	2013
<b>Jon Christensen, CFA</b>	Senior Research Analyst Sector Coverage: Health Care and Industrials	1995	2001
<b>Chris Wright, CFA</b>	Senior Research Analyst Sector Coverage: Financials, Information Technology, Energy and Industrials	2012	2012
<b>Adam Xiao, CFA</b>	Senior Research Analyst Sector Coverage: Financials, Consumer Discretionary, Information Technology and Industrials	2013	2018
<b>Tyler Cantarano</b>	Research Analyst Sector Coverage: Information Technology, Consumer Discretionary and Communication Services	2017	2024
<b>Sean Dixon</b>	Research Analyst Sector Coverage: Consumer Discretionary and Industrials	2008	2018
<b>Luke Longinotti, CFA</b>	ESG Research Analyst	2020	2023
<b>Arthur Su, CFA</b>	Research Analyst Sector Coverage: Information Technology and Industrials	2015	2022
<b>Clarissa Ali</b>	Associate Research Analyst	2023	2018
<b>Client Services</b>	<b>Responsibility</b>	<b>Industry Start Date</b>	<b>KAR Start Date</b>
<b>Jason Pomatto</b>	Managing Director - Senior Client Portfolio Manager	1994	2021
<b>Ben Falcone, CFA</b>	Managing Director - Client Portfolio Manager	1996	2023
<b>James May, CFA</b>	Managing Director - Client Portfolio Manager	1989	2019
<b>Ben Corser</b>	Portfolio Specialist	2006	2018

# Market Review

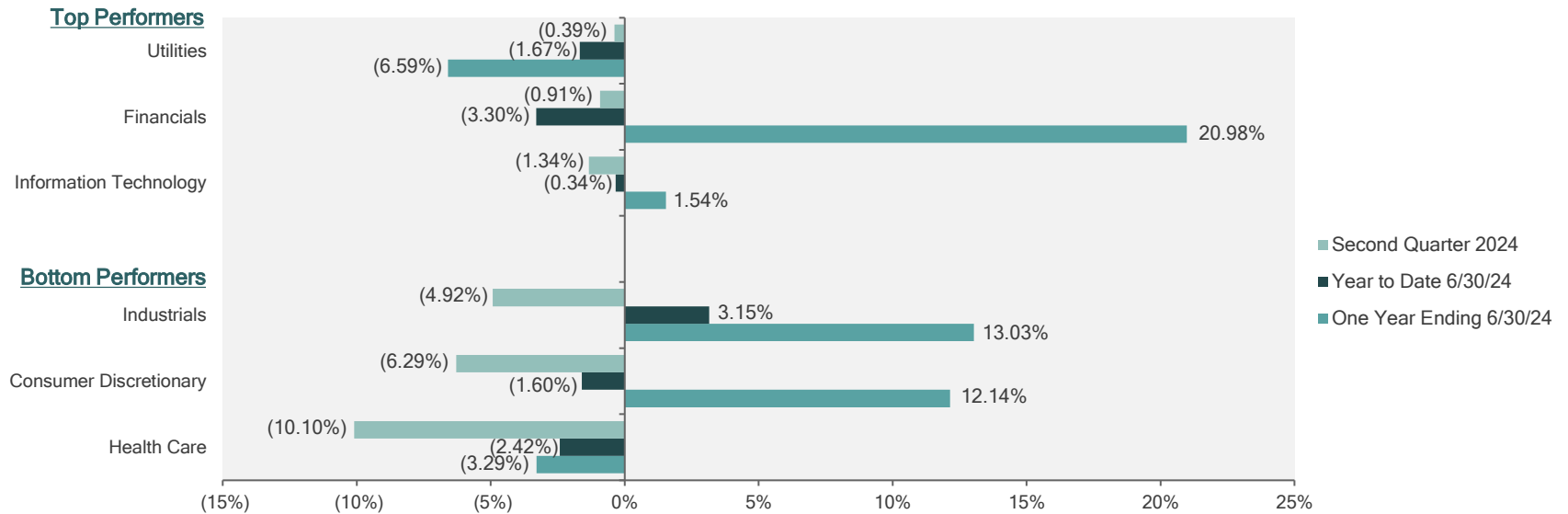
## Performance by Sector and Style



Kayne Anderson Rudnick  
Investment Management

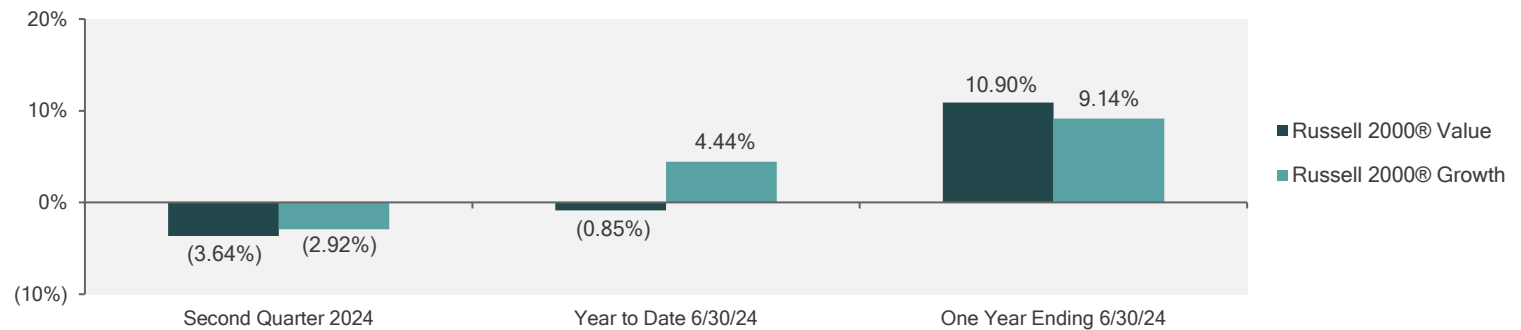
### Sector Performance

Russell 2000® Value Index



### Performance by Style

Russell 2000® Value Index vs. Russell 2000® Growth Index



*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 is assumed to be reliable. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and it is not available for direct investment. Past performance is no guarantee of future results.*

# Market Review

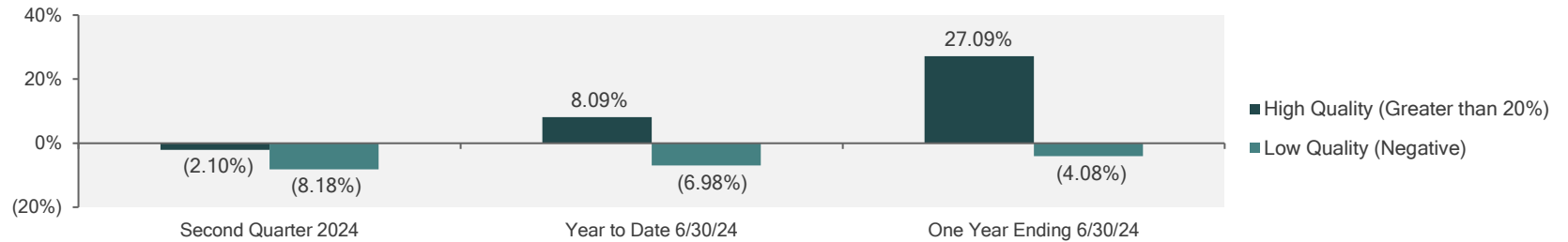
## Performance by Financial Metric



Kayne Anderson Rudnick  
Investment Management

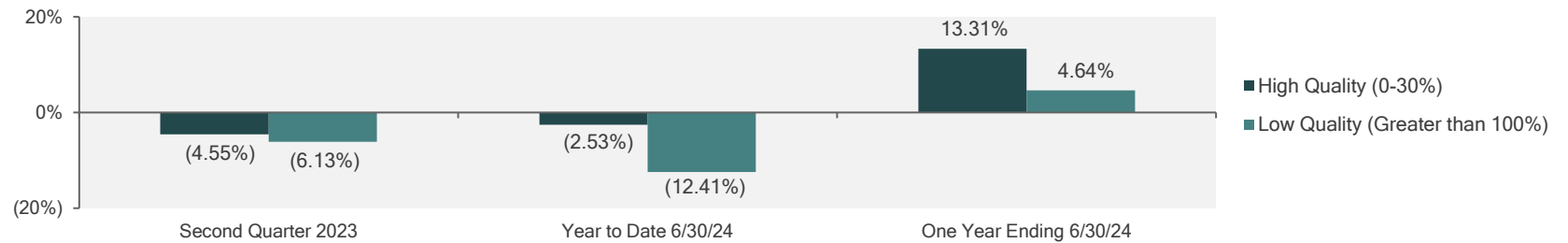
### Performance by Return on Equity

Russell 2000® Value Index



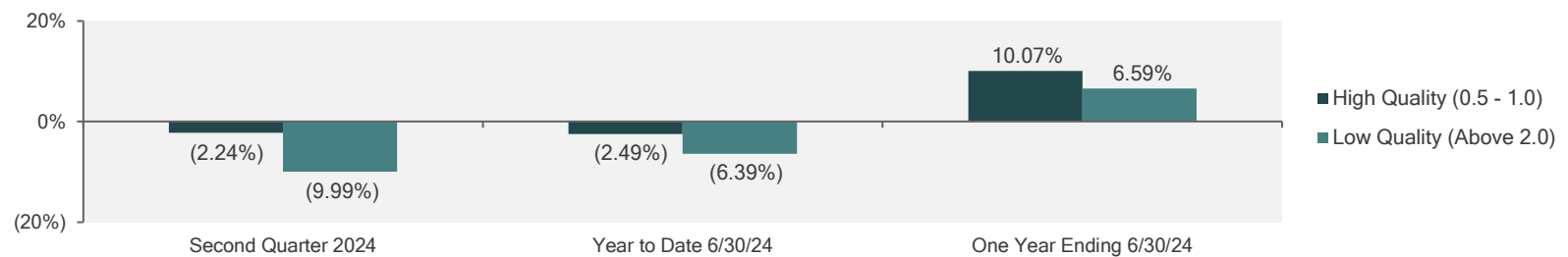
### Performance by Debt/Capital Ratio

Russell 2000® Value Index



### Performance by Beta

Russell 2000® Value Index



*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 is assumed to be reliable. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and it is not available for direct investment. Past performance is no guarantee of future results.*

# Quarterly Performance Overview

## Small Cap Quality Value Portfolio

Periods Ending June 30, 2024



Kayne Anderson Rudnick  
Investment Management

### Monthly, Quarterly and Year to Date Performance

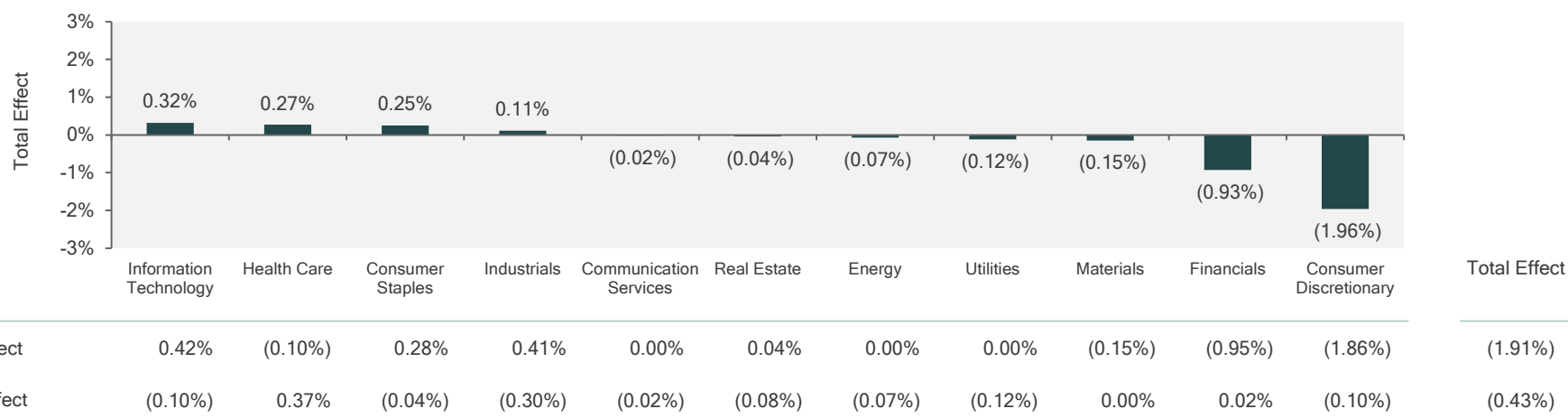
	Gross (%)	Net (%)	Index (%)	Excess Returns - Net (bps)
April	(7.91)	(8.16)	(6.37)	(179)
May	4.47	4.22	4.68	(46)
June	(1.85)	(2.10)	(1.69)	(42)
Second Quarter	(5.58)	(6.30)	(3.64)	(266)
Year to Date	(1.69)	(3.17)	(0.85)	(232)

### Annualized Performance

Periods Ending 6/30/24	Gross (%)	Net (%)	Index (%)
1 Year	9.68	6.45	10.90
5 Years	8.71	5.51	7.07
10 Years	9.01	5.81	6.23

### Attribution by Sector

Quarter Ending June 30, 2024



*This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.*

*The attribution data provided herein is based upon a buy and hold methodology and gross returns for a representative portfolio. Returns for the Kayne Anderson Rudnick composite are final. All periods less than one year are total returns and are not annualized. 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. Numbers may not always add up due to rounding. **Past performance is no guarantee of future results.** Returns could be reduced, or losses incurred, due to currency fluctuations.*



# Highest Contributors

## Small Cap Quality Value Portfolio

### Quarter Ending June 30, 2024



Kayne Anderson Rudnick  
Investment Management

Security	Contribution	Comments
National Beverage	+0.48%	For the full fiscal year, National Beverage saw increases in average selling price per case offset by declines in case volume. The stock rallied on this quarter's earnings release with a slightly better average selling price that led to margin expansion beyond expectations. The company has reported six consecutive quarters of positive revenue. Given the general worry about the persistence of grocery inflation and the resulting push back from consumers, we believe the company is positioned more on the value end of the spectrum, which should help while inflation lingers.
Watsco	+0.43%	Watsco experienced resilient results during the quarter amidst softer market conditions for residential HVAC. The company reported better-than-industry same-store sales comparisons and sustainable gross margins. We believe Watsco should benefit as residential HVAC fundamentals improve, particularly as original equipment manufacturers make progress ahead of the 2025 refrigerant transition.
Badger Meter	+0.42%	Badger Meter experienced a solid quarter with strong revenue growth and operating margin expansion driven by utility demand for advanced metering infrastructure and water monitoring products alongside operating expense leverage. As a result, the shares outperformed in the quarter.
Houlihan Lokey	+0.35%	In the latest quarter, Houlihan Lokey reported revenue growth across all its segments, and commensurate profit growth.
Cheesecake Factory	+0.32%	The Cheesecake Factory is showing resilience in a challenging market with multiple quarters of stabilizing traffic, outperforming the broader casual dining industry. We believe the company's focus on operational excellence has led to improvements in labor productivity, food efficiency and staff retention levels, while price increases are catching up with inflation, contributing to higher profitability.

***This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.***

*Holdings are subject to change. All information is provided for informational purposes only and should not be deemed as a recommendation to purchase the securities mentioned. Kayne Anderson Rudnick has chosen to review the securities in this document based upon objective criteria. It should not be assumed that securities recommended in the future will be profitable. 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.*

# Lowest Contributors

## Small Cap Quality Value Portfolio

### Quarter Ending June 30, 2024



Kayne Anderson Rudnick  
Investment Management

Security	Contribution	Comments
SiteOne Landscape Supply	(1.24%)	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.
Thor Industries	(1.00%)	Thor Industries continues to feel the effects of the significant downdraft in industry-wide RV sales. The company is experiencing weaker demand, particularly in North America due to economic pressure on the consumer and higher interest rates. However, the business continues to operate largely as an assembler and not a vertical manufacturer, which we believe helps the business continue to generate free cash flow, even as RV sales decline.
Leslie's	(0.94%)	Leslie's faced continued weak consumer spending on big ticket items like pools and hot tubs, while also facing high margin chemical pricing adjustments downward. Calendar 2024 started wet and cool for the first half of the year, negatively impacting demand. Sentiment towards the company's near-term demand was also negatively affected by an industry peer guiding its business results down because of cautious consumer spending and weak demand. These factors caused shares to underperform.
Hillman Solutions	(0.75%)	Hillman Solutions' underperformance is due to the decline in revenue at Hillman's Robotics and Digital Solutions business. Hillman's Robotics and Digital Solutions business is experiencing a lower level of transactions due to declining levels of pet ownership and a large customer removing Hillman's full-service kiosks from stores.
EVERTEC	(0.67%)	EVERTEC's core Puerto Rico market continues to generate strong operating results. However, a recent acquisition in Brazil experienced some operational challenges, which impacted consolidated operating results and the share price.

***This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.***

*Holdings are subject to change. All information is provided for informational purposes only and should not be deemed as a recommendation to purchase the securities mentioned. Kayne Anderson Rudnick has chosen to review the securities in this document based upon objective criteria. It should not be assumed that securities recommended in the future will be profitable. 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.*

# Annual Performance Overview

## Small Cap Quality Value Portfolio

### Periods Ending June 30, 2024



Kayne Anderson Rudnick  
Investment Management

#### Quarterly and Annual Performance

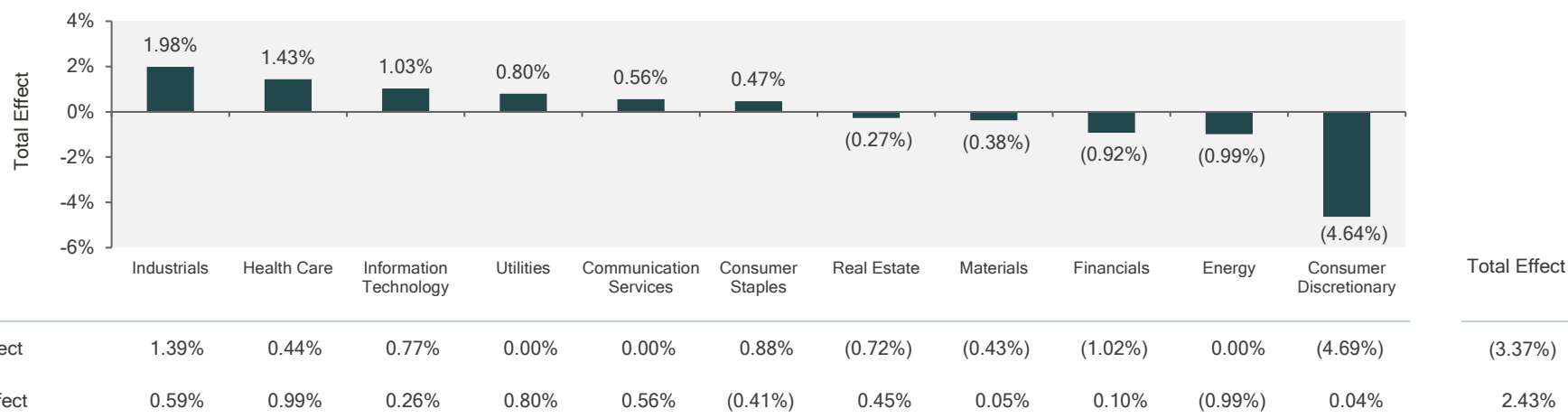
	Gross (%)	Net (%)	Index (%)	Excess Returns - Net (bps)
Third Quarter 2023	(2.85)	(3.58)	(2.96)	(62)
Fourth Quarter 2023	14.83	14.01	15.26	(125)
First Quarter 2024	4.12	3.35	2.90	45
Second Quarter 2024	(5.58)	(6.30)	(3.64)	(266)
1 Year Ending 6/30/24	9.68	6.45	10.90	(445)

#### Annualized Performance

Periods Ending 6/30/24	Gross (%)	Net (%)	Index (%)
1 Year	9.68	6.45	10.90
5 Years	8.71	5.51	7.07
10 Years	9.01	5.81	6.23

#### Attribution by Sector

One Year Ending June 30, 2024



*This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.*

*The attribution data provided herein is based upon a buy and hold methodology and gross returns for a representative portfolio. Returns for the Kayne Anderson Rudnick composite are final. All periods less than one year are total returns and are not annualized. 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. Numbers may not always add up due to rounding. **Past performance is no guarantee of future results.** Returns could be reduced, or losses incurred, due to currency fluctuations.*

# Highest Contributors

## Small Cap Quality Value Portfolio

### One Year Ending June 30, 2024



Kayne Anderson Rudnick  
Investment Management

Security	Contribution	Comments
Construction Partners	+2.48%	Shares outperformed over the last twelve months due to a healthy funding environment for road infrastructure supporting the company's organic and inorganic growth strategy, combined with an improvement in profitability levels as inflation headwinds begin to recede.
Houlihan Lokey	+1.88%	Houlihan Lokey's focus on smaller deals has allowed it to see more resilient deal volume than several peers over the past several quarters. The company also saw an increase in the financial restructuring work it provides clients from the prior year, helping financial results. The company's fundamental outperformance relative to independent investment banking peers caused its stock to outperform in the trailing twelve-month period.
Armstrong World Industries	+1.64%	Armstrong's shares performed well following the company's reports of better-than-expected operating results and an improved annual outlook.
Watsco	+1.53%	Shares outperformed over the last twelve months due to resilient financial performance with sustained gross margins despite a period of softening residential HVAC demand. Additionally, OEM price increases related to the 2025 refrigerant changeover are expected to reaccelerate the company's revenue growth, particularly as volume declines normalize.
Bank of Hawaii	+1.11%	Despite the industry turmoil that began in March of 2023, Bank of Hawaii's deposit franchise and credit quality have demonstrated resilience. We believe profitability is likely to improve going forward, especially if the Federal Reserve decides to start cutting short-term interest rates.

*This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.*

*Holdings are subject to change. All information is provided for informational purposes only and should not be deemed as a recommendation to purchase the securities mentioned. Kayne Anderson Rudnick has chosen to review the securities in this document based upon objective criteria. It should not be assumed that securities recommended in the future will be profitable. 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.*

# Lowest Contributors

## Small Cap Quality Value Portfolio

### One Year Ending June 30, 2024



Kayne Anderson Rudnick  
Investment Management

Security	Contribution	Comments
Leslie's	(1.72%)	Over the twelve-month period, Leslie's faced continued weak consumer spending on big ticket items like pools and hot tubs, while also facing high margin chemical pricing adjustments downward. Calendar 2024 started wet and cool for the first half of the year, negatively impacting demand. Sentiment towards the company's near-term demand was also negatively affected by an industry peer guiding its business results down because of cautious consumer spending and weak demand. These factors caused shares to underperform.
SiteOne Landscape Supply	(1.26%)	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.
Getty Realty	(0.52%)	Getty Realty has underperformed because of persistent higher interest rates. As a result, the company has utilized more of its at-the-market equity offerings to help fund its pipeline of deals, allowing the company to keep its balance sheet in a relatively better position than comparable REIT company debt structures.
John Bean Technologies	(0.43%)	We believe John Bean Technologies' underperformance likely stems from wholesale pricing pressure faced by the poultry industry in general, which has generated a headwind to the company's poultry business. Additionally, the company is pursuing an acquisition, which introduces execution uncertainty to its business.
EVERTEC	(0.38%)	EVERTEC's core Puerto Rico market continues to generate strong operating results. However, a recent acquisition in Brazil experienced some operational challenges, which impacted consolidated operating results and the share price.

***This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.***

*Holdings are subject to change. All information is provided for informational purposes only and should not be deemed as a recommendation to purchase the securities mentioned. Kayne Anderson Rudnick has chosen to review the securities in this document based upon objective criteria. It should not be assumed that securities recommended in the future will be profitable. 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.*

# Purchases

Small Cap Quality Value Portfolio  
Quarter Ending June 30, 2024



Kayne Anderson Rudnick  
Investment Management

Purchases	Descriptions/Reasons
Choice Hotels International—Initiated Position	Choice Hotels International is one of the world’s largest hotel companies and is primarily a hotel franchisor. The company represents over 7,500 hotels across 23 different hotel brands/brand extensions.
CSW Industrials—Initiated Position	CSW Industrials is an industrial business providing consumable and high-quality niche products that are low cost but provide high value to professional tradespeople (largely HVAC/R, plumbing, and general industrial customers). The business attains leading positions across its targeted end markets and products largely go-to-market via distribution partners.
John Bean Technologies—Increased Position	We continue to have a positive view of John Bean’s long-term market positioning. The company’s profitability has improved driven by recent cost-saving restructuring and supply chain initiatives. It also continues to make progress on the sizeable acquisition of a multi-national food processing company with the transaction expected to close by the end of the year. With these considerations in mind, and with the shares’ valuation attractive, we increased our position.

*This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.*

*Holdings are subject to change. All information is provided for informational purposes only and should not be deemed as a recommendation to purchase the securities mentioned. Kayne Anderson Rudnick has chosen to review the securities in this document based upon objective criteria. It should not be assumed that securities recommended in the future will be profitable.*

# New Position

Small Cap Quality Value Portfolio  
Quarter Ending June 30, 2024



Kayne Anderson Rudnick  
Investment Management

## Choice Hotels International (CHH)

- Choice Hotels International's domestic footprint is nearly 100% franchised and managed by direct franchising relationships, while its international footprint is 100% franchised and managed via direct and master franchise agreements.
- Choice Hotels is an asset-light, scaled hotel franchisor with the #1 hotel count position in the U.S. domestic midscale and upper-midscale market. From our perspective, Choice utilizes their scale to generate heightened brand awareness, drive higher proprietary booking channel contribution levels, and lever internally purpose-built operating support systems and scaled vendor purchases to drive a lower total cost of ownership for franchisees.
- We believe the result is a portfolio of franchisees loyal to the Choice Hotels system and a protected position in the midscale hotel segment.

*This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.*

*Holdings are subject to change. All information is provided for informational purposes only and should not be deemed as a recommendation to purchase the securities mentioned. Kayne Anderson Rudnick has chosen to review the securities in this document based upon objective criteria. It should not be assumed that securities recommended in the future will be profitable.*

# New Position

Small Cap Quality Value Portfolio  
Quarter Ending June 30, 2024



Kayne Anderson Rudnick  
Investment Management

## CSW Industrials (CSWI)

- We believe CSW Industrial's products deliver high performance, quality, and total value to professional customers, generally demand a premium price relative to competitive products, and attain annual price increases in the 3% to 5% range. Importantly, CSW's HVAC/R products (and other end market brands) are asked for by name. For example, RectorSeal No 5 pipe thread sealant is widely regarded as an industry standard for thread sealants for HVAC/R, plumbing, and electrical configurations.
- CSW's products are largely go-to-market via distribution partners where product knowledge and customer satisfaction are key success factors in an individual product's performance. In our view, CSW capitalizes on its branded high value products to garner sticky distribution carriage and CSW then augments their favored carriage position by incentivizing distributors via volume discounts to retain and push additional CSW portfolio product through individual distributor relationships.
- We believe CSW's advantageous position continues to generate good pre-tax returns-on-tangible-capital that is supported by ongoing pricing power and a defensible competitive position (brand and scale).

*This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.*

*Holdings are subject to change. All information is provided for informational purposes only and should not be deemed as a recommendation to purchase the securities mentioned. Kayne Anderson Rudnick has chosen to review the securities in this document based upon objective criteria. It should not be assumed that securities recommended in the future will be profitable.*



# Sales

## Small Cap Quality Value Portfolio Quarter Ending June 30, 2024



Kayne Anderson Rudnick  
Investment Management

Sales	Reasons
American Software—Sold Entire Position	American Software is falling behind competitors in terms of both R&D and go-to-market capabilities and, as a result, operating performance. We became increasingly concerned with what appears to be an unfavorable shift in the company's competitive landscape and capital allocation strategy, which, coupled with cyclical customer belt-tightening (resulting in elongated sales and collection cycles), increased the company's risk profile. With these considerations in mind, we exited our position.
Graco—Sold Entire Position	We sold our position in Graco due to the company's market capitalization being too large for the portfolio's small-cap mandate.
Badger Meter—Trimmed Position	Badger Meter has performed strongly and while we view the company's premium valuation as justified by its solid competitive positioning, the stock was trading at the higher end of its historic valuation range so we reduced our position.
Construction Partners—Trimmed Position	Shares of Construction Partners outperformed over the trailing 12 months as the company continued to gain share and benefit from robust road infrastructure spending. However, with the stock trading at the higher end of its historic valuation range, we reduced our position.
Watsco—Trimmed Position	We trimmed our position in Watsco to help fund a new investment into another HVAC-related business. We continue to believe that Watsco has a runway for further industry consolidation and margin opportunities over the long-run.

*This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.*

*Holdings are subject to change. All information is provided for informational purposes only and should not be deemed as a recommendation to purchase the securities mentioned. Kayne Anderson Rudnick has chosen to review the securities in this document based upon objective criteria. It should not be assumed that securities recommended in the future will be profitable.*

# Portfolio Characteristics

## Small Cap Quality Value Portfolio

### As of June 30, 2024



Kayne Anderson Rudnick  
Investment Management

	KAR Small Cap Quality Value	Russell 2000® Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	<b>19.9%</b>	8.8%
Debt/EBITDA*	<b>1.6 x</b>	3.1 x
Earnings Variability—Past 10 Years	<b>45.2%</b>	88.1%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	<b>11.4%</b>	8.8%
Earnings Per Share Growth—Past 10 Years	<b>10.9%</b>	8.9%
Dividend Per Share Growth—Past 5 Years	<b>10.1%</b>	5.2%
Dividend Per Share Growth—Past 10 Years	<b>10.2%</b>	4.3%
Capital Generation—{ROE x (1-Payout)}	<b>14.3%</b>	6.8%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	<b>31.1 x</b>	24.5 x
Dividend Yield	<b>1.4%</b>	2.2%
Free Cash Flow Yield†	<b>5.2%</b>	3.4%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Average	<b>\$4.9 B</b>	\$2.6 B
Largest Market Cap—3-Year Average	<b>\$13.7 B</b>	\$10.9 B
Annualized Standard Deviation—Since Inception‡ (Net of Fees)	<b>19.1%</b>	21.4%

In a market of average businesses, we seek to own protected proprietary businesses that generate exceptional returns on shareholders' capital without employing significant debt.

In a market of cyclical businesses requiring growth capital from fickle markets, we seek to own companies producing self-funded strong, consistent growth sustainable into the future.

\*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.

‡Actual inception date is June 1, 1998. July 1, 1998 is used for calculation purposes of quarterly information.

**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. The statistics presented above are based on a representative portfolio. Actual results may vary. 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.

# Market Commentary

## Continued Strong Earnings Growth in Technology



Kayne Anderson Rudnick  
Investment Management

- We see earnings growth in the S&P in technology, communication services (which is benefiting from election spending), and utilities (which is seeing earnings grow on the back of high AI spending).
- We can argue that most sectors in the S&P 500 saw earnings bottom in 2023. That has not been the case for small and mid-cap companies which are expected to see earnings growth in the upcoming second quarter earnings season.
- Seven of 11 mid-cap sectors reported improved earnings in the first quarter of 2024. Only two sectors in small cap (health care and utilities) experienced earnings per share improvement in the first quarter. An additional four sectors are expected to show growth this upcoming earnings season.
- That is not to say we would avoid small cap, but rather focus on quality businesses that have more resilient earnings. We believe these durable businesses have performed better than the benchmarks would suggest.

### GICS Sector Contribution to S&P 500® Index Earnings

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Communication Services	Utilities	Real Estate	Full Year
<b>2020</b>	\$10.60	\$12.68	(\$7.33)	\$29.12	\$23.69	\$7.23	\$32.73	\$4.24	\$19.68	\$6.24	\$3.50	<b>\$142.38</b>
<b>2021</b>	\$16.85	\$12.31	\$9.40	\$46.96	\$29.94	\$13.47	\$42.57	\$6.62	\$22.91	\$5.06	\$3.29	<b>\$209.38</b>
<b>2022</b>	\$14.95	\$13.27	\$26.08	\$29.96	\$31.64	\$18.01	\$42.93	\$7.74	\$25.47	\$6.51	\$5.01	<b>\$221.59</b>
<b>2023P</b>	\$18.86	\$15.10	\$17.22	\$44.14	\$25.88	\$20.31	\$41.33	\$5.47	\$23.95	\$6.99	\$3.69	<b>\$222.94</b>
<b>2024E</b>	\$21.25	\$18.50	\$16.25	\$46.50	\$27.75	\$21.50	\$46.75	\$5.00	\$25.75	\$8.25	\$3.25	<b>\$240.75</b>

Data as of June 30, 2024. Source: Strategas. Data is based on Strategas estimates per share and is assumed to be reliable. This information is being provided by Kayne Anderson Rudnick Investment Management, LLC ("KAR") for illustrative purposes only. **Past performance is no guarantee of future results.** Returns could be reduced, or losses incurred, due to currency fluctuations.

# Market Commentary

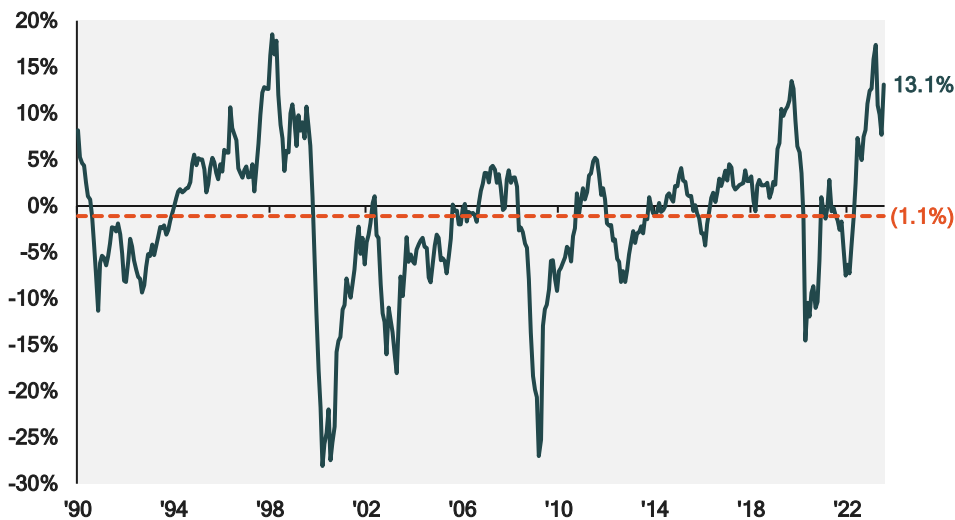
## Continuation of Very Narrow U.S. Large Cap Market



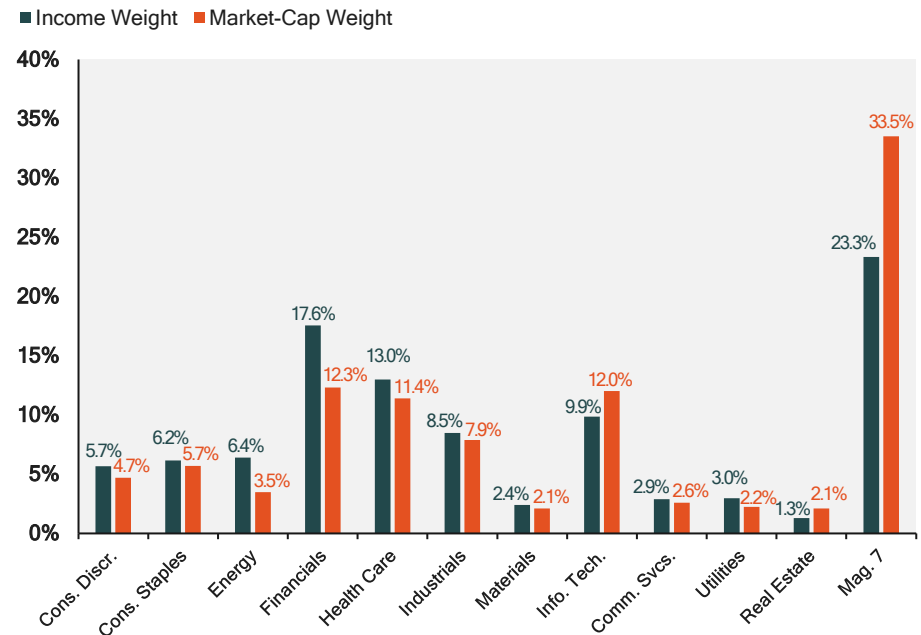
Kayne Anderson Rudnick  
Investment Management

- From a historical perspective, we have seen two periods where the gap between the market-cap weighted versus equal weighted indices has been this wide (the late 1990s and the late 2010s) and would note that while the gap can persist for some time, the reversals can be sudden.
- The Mag 7 accounts for 32% of the S&P by composite weight but only 23% by earnings. So while we understand investor positioning to go where there is growth, valuations could be a bit full here.
- While many investors seek index investing as a way to diversify, there is less safety in that diversification than in previous periods.

**S&P 500® vs. S&P 500® Equal-Weighted Index**  
Rolling 12-Month Return Differential



**S&P 500® Net Income Weight vs. Sector Weight**



Data as of June 30, 2024. Data for the chart to the left is obtained from Strategas and Bloomberg and is assumed to be reliable. Data for the chart to the right is obtained from Strategas and Factset and is assumed to be reliable. The Magnificent 7 is its own sector and is excluded from the other sectors. The information provided in this chart is for illustrative purposes only. **Past performance is no guarantee of future results.**

# Market Commentary

## A More Normalized Interest Rate Environment Should Allow Quality Companies to Better Differentiate Themselves

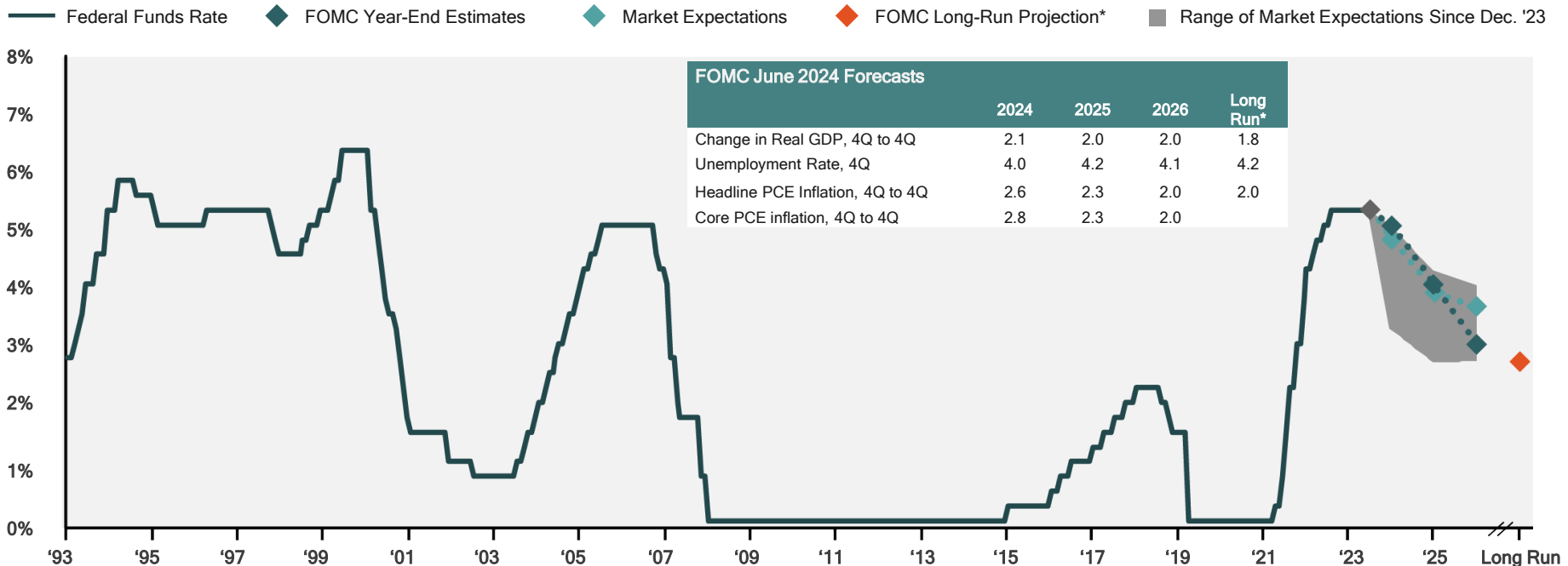


Kayne Anderson Rudnick  
Investment Management

- While we do expect the Fed to eventually cut interest rates, we do not expect interest rates to return to 0%. The last 13 years are the anomaly, not the current 5.25-5.50%, which is less than 100 basis points above the long-run average.
- Assuming a more normalized or neutral rate of 3-4% could have a profound impact on how companies operate and how assets are priced.
- We believe this should allow for quality companies with low leverage to be better-positioned to weather a more capital-constrained environment by generating all their capital needs internally and finding opportunities to reinvest without relying on free outside financing to do so.

### Federal Funds Rate Expectations

FOMC and Market Expectations for the Federal Funds Rate



Data as of June 30, 2024. Data is obtained from the Bloomberg, FactSet, Federal Reserve and J.P. Morgan Asset Management and is assumed to be reliable. Market expectations are based off of USD Overnight Index Swaps. \*Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

# Market Commentary

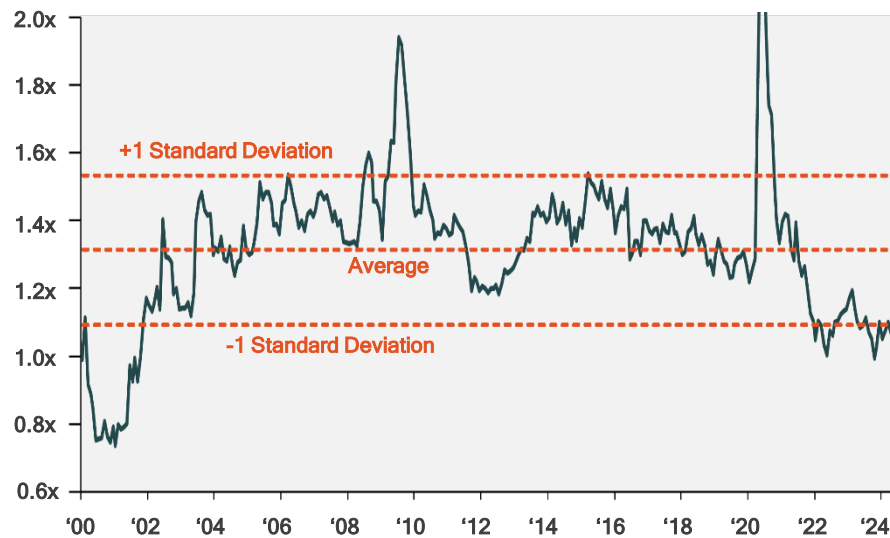
## Large Differential in Valuations Between Large and Small Stocks



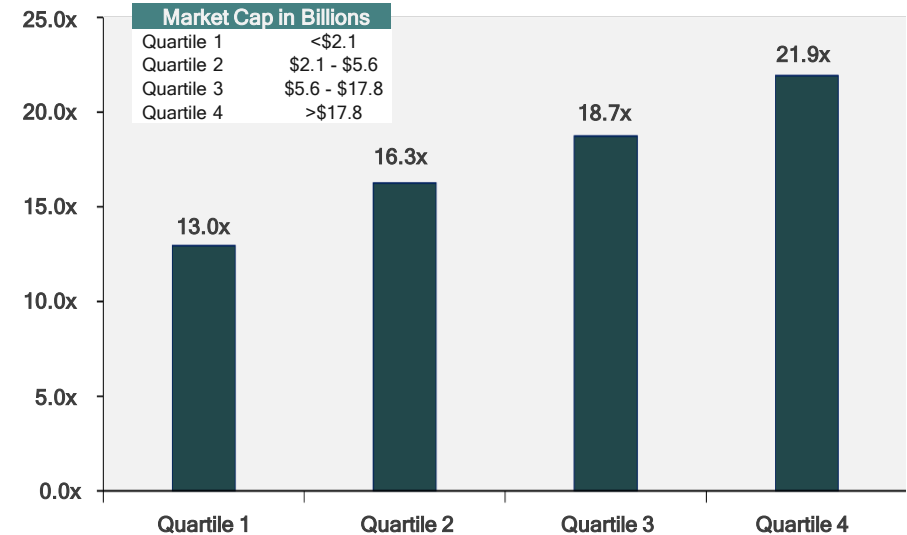
Kayne Anderson Rudnick  
Investment Management

- Given the disparity in performance between large and small-cap stocks, the differential in large cap and small-cap P/E ratios are now one standard deviation from their average.
- We also see a direct linear relationship between market cap and P/E multiples.

**Russell 2000® Index P/E Ratio Relative to S&P 500® Index P/E Ratio**  
Next 12 Months



**S&P 1500® Median P/E by Market Cap Quartile**  
Last 12 Months



Data for the chart to the left is as of May 31, 2024. Data for the chart to the right is as of June 18, 2024. Data is obtained from Strategas and Factset and is assumed to be reliable. The information provided in this chart is for illustrative purposes only. **Past performance is no guarantee of future results.**

- **Portfolio Data**
- **Disclosure**

# Sector Weights

## Small Cap Quality Value Portfolio

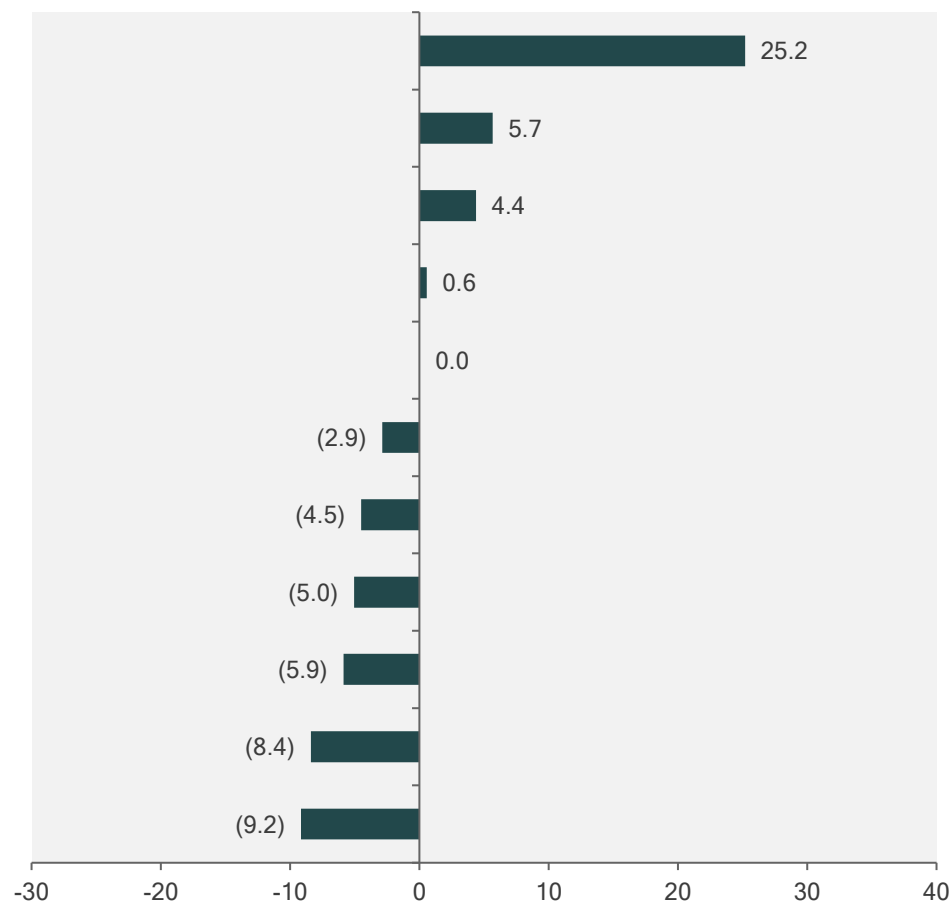
### As of June 30, 2024



Kayne Anderson Rudnick  
Investment Management

Sectors	KAR Small Cap Quality Value (%)	Russell 2000® Value Index (%)
Industrials	37.4	12.2
Consumer Discretionary	15.7	10.0
Consumer Staples	6.6	2.3
Materials	6.1	5.5
Financials	26.9	26.8
Communication Services	—	2.9
Information Technology	1.6	6.1
Utilities	—	5.0
Health Care	3.4	9.2
Real Estate	2.4	10.7
Energy	—	9.2

### Underweight/Overweight (%)



*This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.*

*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. Numbers may not always add up due to rounding.*



# Top Ten Holdings

## Small Cap Quality Value Portfolio

### As of June 30, 2024



Kayne Anderson Rudnick  
Investment Management

Top 10 Holdings	GICS Sector	% of Portfolio
Houlihan Lokey	Financials	6.2
Watsco	Industrials	5.9
RBC Bearings	Industrials	4.5
Primerica	Financials	4.4
Construction Partners	Industrials	4.4
Thor Industries	Consumer Discretionary	4.2
Armstrong World Industries	Industrials	4.2
Landstar System	Industrials	4.0
Hillman Solutions	Industrials	3.9
H.B Fuller	Materials	3.8
<b>Total</b>		<b>45.4</b>

Research confidence leads to large active weights

	KAR Small Cap Quality Value	Russell 2000® Value Index
# of Holdings	31	1,441
Average Position Size (%)	3.2	0.1
Weight of Top Ten Holdings (%)	45.4	4.8
Active Share (%)	99.1	—

The strategy benefits from diversification while still taking significant active positions

*This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.*

*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. Numbers may not always add up due to rounding.*

# Returns

## Small Cap Quality Value Portfolio



Kayne Anderson Rudnick  
Investment Management

### Annualized Performance

Periods Ending 6/30/24	Gross (%)	Net (%)	Index (%)	Excess Return -Net (bps)
Second Quarter	(5.58)	(6.30)	(3.64)	(266)
Year to Date	(1.69)	(3.17)	(0.85)	(232)
1 Year	9.68	6.45	10.90	(445)
3 Years	(2.34)	(5.24)	(0.53)	(471)
5 Years	8.71	5.51	7.07	(157)
7 Years	7.70	4.53	5.89	(136)
10 Years	9.01	5.81	6.23	(42)
Since Inception*	10.66	7.42	7.70	(27)

\*June 1, 1998

†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 for the Kayne Anderson Rudnick composite are final. All periods less than one year are total returns and are not annualized. 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. Numbers may not always add up due to rounding.

**Past performance is no guarantee of future results.** Returns could be reduced, or losses incurred, due to currency fluctuations.

**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. **Industrial Concentration:** Because the portfolio is presently heavily weighted in the industrial sector, it will be impacted by that sector's performance more than a portfolio with broader sector diversification. **Sector Focused Investing:** Events negatively affecting a particular industry or market sector in which the portfolio focuses its investments may cause the value of the portfolio to decrease. **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.

### Calendar Year Performance

Periods Ending 12/31	Gross (%)	Net (%)	Index (%)	Excess Return - Net (bps)
2023	19.64	16.15	14.65	150
2022	(23.47)	(25.79)	(14.48)	(1,130)
2021	19.71	16.22	28.27	(1,205)
2020	28.88	25.13	4.63	2,049
2019	25.09	21.45	22.39	(94)
2018	(14.14)	(16.72)	(12.86)	(385)
2017	20.66	17.14	7.84	930
2016	26.17	22.50	31.74	(924)
2015	(0.27)	(3.22)	(7.47)	424
2014	2.51	(0.52)	4.22	(473)
2013	40.00	35.97	34.52	145
2012	10.01	6.77	18.05	(1,128)
2011	6.73	3.58	(5.50)	908
2010	24.75	21.12	24.50	(338)
2009	27.82	24.21	20.58	363
2008	(28.62)	(30.93)	(28.92)	(201)
2007	1.93	(1.08)	(9.78)	869
2006	23.72	20.23	23.48	(325)
2005	8.53	5.37	4.71	66
2004	27.59	24.03	22.25	178
2003	22.12	18.65	46.03	(2,738)
2002	0.48	(2.51)	(11.43)	892
2001	19.42	16.00	14.02	198
2000	24.92	21.40	22.83	(142)
1999	(7.69)	(10.49)	(1.49)	(900)
1998†	9.61	7.76	(10.93)	1,869

# Risk-Return Analysis

## Small Cap Quality Value Portfolio

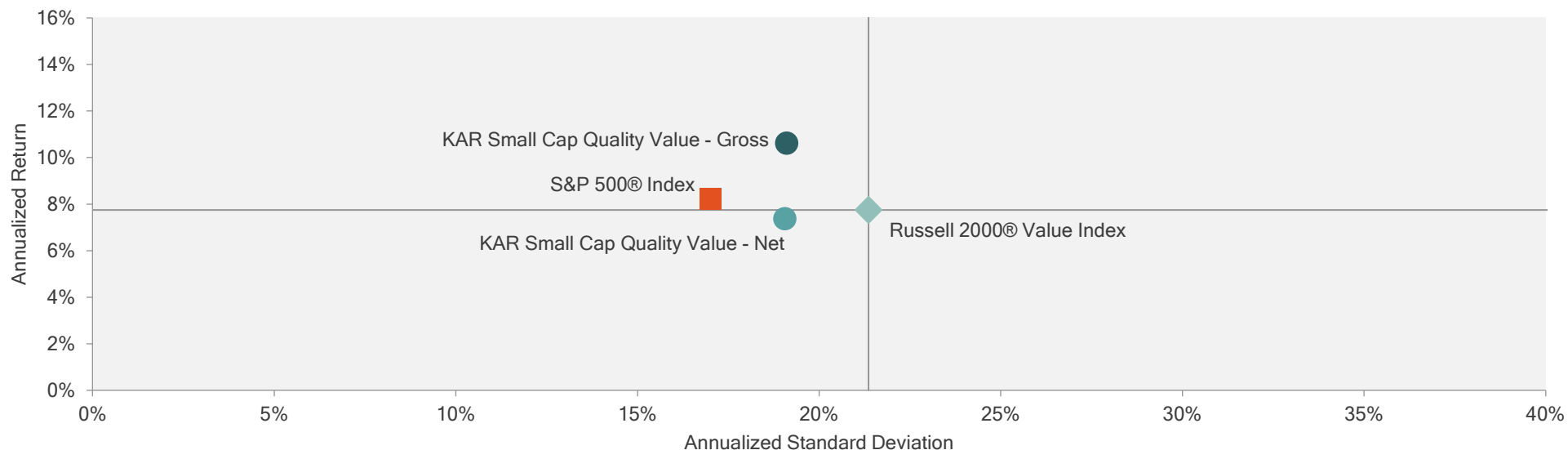
### Inception\* to June 30, 2024



Kayne Anderson Rudnick  
Investment Management

### Meaningful Excess Return with Lower Volatility

Annualized Since Inception\*



### Performance Statistics

Annualized Since Inception\*

	Annualized Return (%)	Alpha (%)	Sharpe Ratio	Information Ratio	Tracking Error	Standard Deviation (%)	Beta	Downside Capture
KAR Small Cap Quality Value - Gross	10.61	3.70	0.45	0.31	9.15	19.11	0.81	73.99
KAR Small Cap Quality Value - Net	7.37	0.64	0.28	(0.04)	9.16	19.06	0.81	81.91
Russell 2000® Value Index	7.75	0.00	0.27	N/A	N/A	21.36	1.00	100.00

\*Actual inception date is June 1, 1998. July 1, 1998 is used for calculation purposes of quarterly information.

**This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.**

Returns for the Kayne Anderson Rudnick composite are final. 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.** Returns could be reduced, or losses incurred, due to currency fluctuations.

# Disclosure

## Small Cap Quality Value (Wrap) Composite



Kayne Anderson Rudnick  
Investment Management

Year	Composite Pure 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)
2014	2.51	(0.52)	4.22	12.88	12.98	26	0.43	648	7,989
2015	(0.27)	(3.22)	(7.47)	13.64	13.65	24	0.32	624	8,095
2016	26.17	22.50	31.74	14.09	15.72	26	0.55	641	9,989
2017	20.66	17.14	7.84	12.17	14.17	28	0.22	803	14,609
2018	(14.14)	(16.72)	(12.86)	14.39	15.98	30	0.19	644	17,840
2019	25.09	21.45	22.39	14.54	15.90	32	0.15	779	25,685
2020	28.88	25.13	4.63	22.10	26.49	29	0.20	945	39,582
2021	19.71	16.22	28.27	19.98	25.35	29	0.15	1,373	47,269
2022	(23.47)	(25.79)	(14.48)	23.17	27.66	29	0.10	894	33,531
2023	19.64	16.15	14.65	19.91	22.06	25	0.26	864	41,186

\*Pure gross returns are supplemental to net returns.

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, 2023.

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 Small Cap Quality Value Wrap Composite has had a performance examination for the period from January 1, 1999 through December 31, 2023. The verification and performance examination reports are available upon request.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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 Small Cap Quality Value Wrap Portfolios. Small Cap Quality Value Wrap 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 the independent verifiers. The inception date of the composite is June 1998. The composite was created in January 2002. 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.

Beginning on January 1, 2006, sub-advisory wrap fee portfolios are also included in composite results. Each sub-advisory relationship is included in the composite as one account. All portfolios included in this composite for all periods are wrap portfolios.

The standard wrap fee schedule in effect is 3.00% on total assets. 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. Performance results include the reinvestment of all income. Pure gross returns do not reflect the deduction of any expenses, including trading costs. Net annual returns are calculated by deducting 1/12th of an assumed maximum annual wrap fee of 3% on a monthly basis. Wrap fees include all charges for trading costs, portfolio management, custody and other administrative expenses.

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 pure gross returns) and the benchmark for the 36-month period.