Kayne Anderson Rudnick Investment Management

Thinking Beyond the Benchmark

Seeking quality in Small-Mid Cap Core for better risk-adjusted performance

ACTIVE OR PASSIVE?

In our opinion, so much of today's investment advice boils down to this simple, perhaps overly simplistic, question: "Should I pay for active management with the hopes of generating excess investment returns or should I 'buy the benchmark' through a lower-cost index fund?" In the race for investment returns, index investing can make a compelling case when compared with many active strategies, whose excess returns, if any, may be offset by fees.

Still, the U.S. small-mid cap asset class seems to provide ample room for skilled active managers to outperform the benchmark. The chart below shows the Russell 2500 Index performance against quartile breakouts of performance by active managers in the asset class. It is clear that many, if not most, active managers have outperformed the benchmark across all the time periods analyzed. Put another way, the index has consistently fallen in the bottom half of all observable active managers in this asset class on an annualized basis.

How these active managers achieve their excess returns and what corresponding risks are taken can vary widely. We believe investors should pay close attention to how active managers achieve their returns over multiple time periods, focusing on the consistency of excess returns.

QUALITY OF HOLDINGS

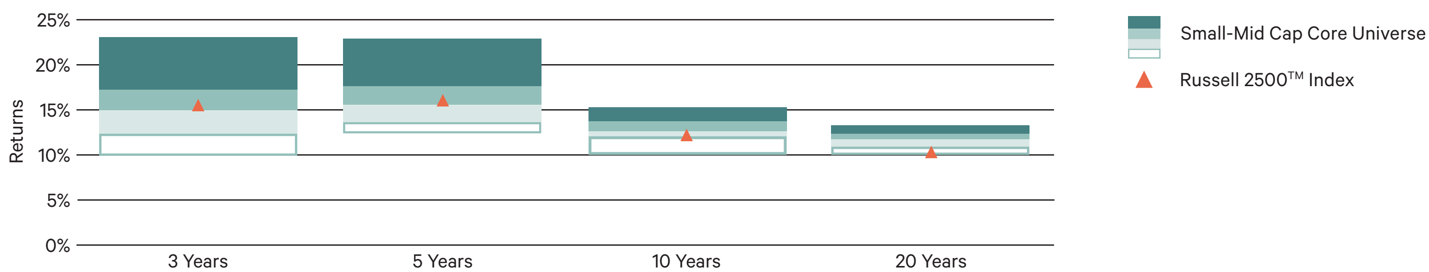
We feel investors should review the quality of the underlying holdings in the portfolios of active managers. In our view, the quality of the underlying businesses held in a portfolio is a key factor in the consistency of investment performance and risk management. We believe that investing in quality businesses is an important contributor to lowering portfolio risk in an effort to capture greater risk-adjusted returns relative not just to the specific asset-class benchmark, but to the overall equity market.

Quality and risk management may seem like secondary factors during periods when the U.S. equity markets are advancing in a consistent manner and in particularly pronounced bull markets. However, in our experience, quality companies tend to stand out when equity markets correct. It is especially during these more volatile periods—when investors have a tendency to seek more stable assets—that we believe quality and risk management count.

> *Our mission is identifying the highest quality businesses in which to invest. Benchmarks, in our view, are not built with the same discretion.*

Percent of unprofitable companies:	
KAR Small-Mid Cap Core:	7%
Russell 2500™ Index:	44%

SMALL-MID CAP CORE UNIVERSE COMPARISON: Annualized Returns



Periods ending March 31, 2021.
Data is obtained from FactSet Research Systems and is assumed to be reliable. The Small-Mid Cap Core Universe includes all managers categorized in the Small-Mid Cap Core asset class by eVestment. Please see additional disclosures presented at the bottom of the last page. ***Past performance is no guarantee of future results.***

PROFITING FROM PROFITABLE COMPANIES

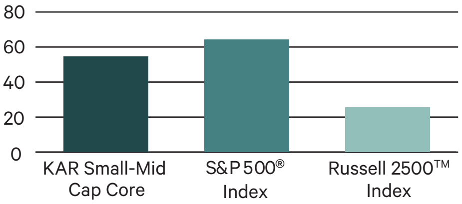
We believe that analyses of any of KAR's actively managed investments will provide a clear view into how the quality of underlying holdings affects the portfolio overall. Specifically, we think a look at our Small-Mid Cap Core strategy will demonstrate the importance of quality and risk management in long-term outperformance.

This strategy invests in the small-to-medium company universe and is benchmarked to the Russell 2500 Index. Take a look at the following charts that compare the KAR portfolio companies against the holdings in its benchmark and in the broad stock market, represented by the S&P 500 Index.

WHAT'S IN OUR INVESTMENT PORTFOLIO?

HIGH-QUALITY STOCKS

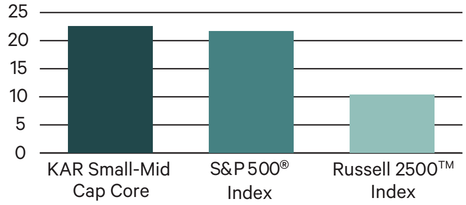
Percentage of Holdings with S&P Quality Rankings of B+ or Above



We seek the benefits of small company exposure, with higher-quality stocks.

PROFITS

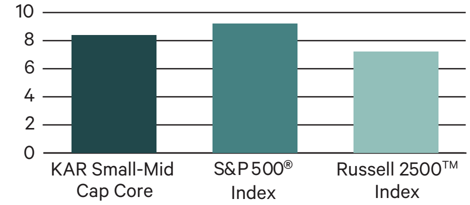
Five-Year Return on Equity



Profitable companies can produce better returns and are more likely to be sustainable in volatile markets.

DEBT COVERAGE

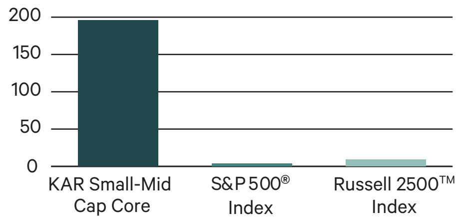
Interest Coverage Expense Ratio



In our view, a higher interest coverage percentage means companies can more easily pay their debts.

DEBT

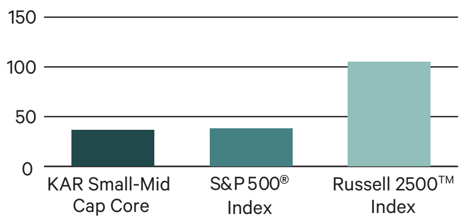
Total Debt/EBITDA*



Less debt translates to more free cash flow to fund future growth.

VALUE

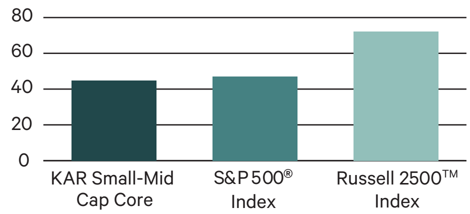
Trailing 12-Month Price-to-Earnings Ratio



Stocks with lower P/E ratios trade at a relative discount and have room to grow.

VOLATILITY OF EARNINGS

Earnings Variance for the Past 10 Years



Lower variance indicates that companies have more predictable earnings over time. Getting smaller-company exposure at a level of earnings variance similar to that found in larger companies.

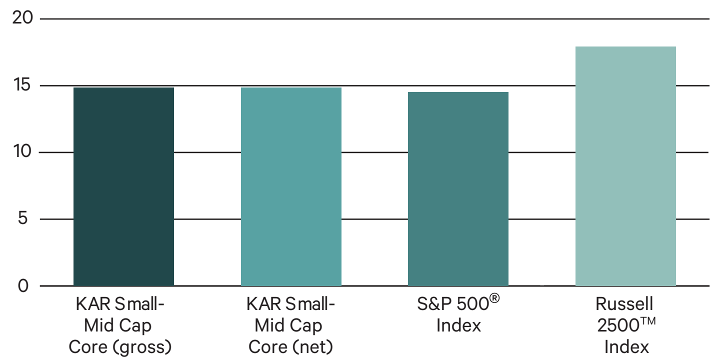
There was a material difference in Total Debt/EBITDA and Interest Coverage Expense quality indicators for the strategy as of March 31, 2021 over the prior quarter end of December 31, 2020. This is primarily due to a single issuer in the portfolio experiencing a depressed EBITDA due to the effect of the pandemic on that issuer's business. Data as of March 31, 2021. 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. Please see additional disclosures presented at the bottom of the last page. This material is deemed supplemental and complements the performance and disclosure presented on the last page.* ***Past performance is no guarantee of future results.*

QUALITY AS AN OFFSET TO VOLATILITY

The flip side of returns is risk, and in our experience, risk management is an important facet of how KAR manages its strategies. We have seen volatility return to the stock market this year after having been largely absent for some time. Volatility in the stock market is normal, and given that the markets continue to see pressure from investor uncertainty over the course of inflation and interest rates, we believe now is an even more important time to be focusing on risk management.

Risk can be described as variability of returns. Stocks with smaller market capitalizations are generally known for not only their potential to deliver excess returns over larger stocks, but also for their potential for higher risk, commonly represented by standard deviation. Our Small-Mid Cap Core portfolio, despite its focus on the small-to-mid capitalization range, maintains a risk profile that is equivalent to that of the S&P 500 Index, which comprises the 500 largest U.S. companies.

ANNUALIZED STANDARD DEVIATION



Data presented is since the inception of the KAR Small-Mid Cap Core strategy, April 1, 1992 through March 31, 2021. Data is obtained from FactSet Research Systems and is assumed to be reliable. Please see additional disclosures presented at the bottom of the last page. This material is deemed supplemental and complements the performance and disclosure presented on the last page.
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The standard deviation metrics on the prior page divided into the annual returns of the respective indices result in the following return-per-unit-of-risk measures:

	ANNUALIZED RETURN	STANDARD DEVIATION	RETURN/ RISK
KAR Small-Mid Cap Core (gross)	12.61	14.84	0.85
KAR Small-Mid Cap Core (net)	11.54	14.84	0.78
S&P 500® Index	10.40	14.52	0.72
Russell 2500™ Index	11.24	17.91	0.63

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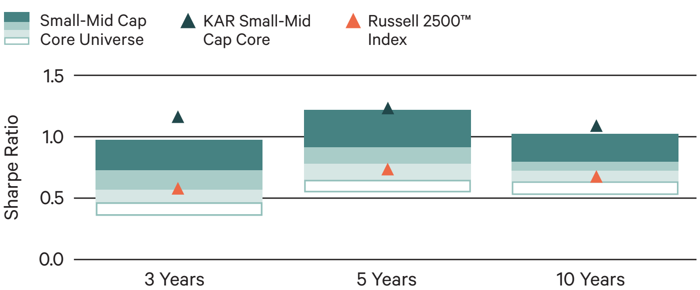
The return-per-unit-of-risk figure is a ratio that compares a strategy's returns to the standard deviation of those returns, showing the relationship between a strategy's performance and the risk associated with the generation of that performance. The higher the ratio, the better the risk-adjusted return.

We believe due to these lower risk measures, the KAR Small-Mid Cap Core portfolio has provided better risk-adjusted returns over the observed years than its benchmark and many of its peers. The following quartile analyses show that our portfolio outpaces most others in the small-mid cap universe in terms of annualized alpha and the Sharpe ratio.

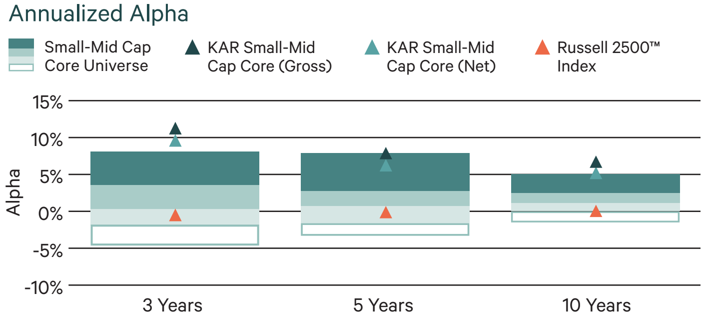
SMALL-MID CAP CORE UNIVERSE COMPARISON (GROSS)

Sharpe Ratio



SMALL-MID CAP CORE UNIVERSE COMPARISON

Annualized Alpha



Periods ending March 31, 2021. Data for the universe charts in the left-hand column is obtained from FactSet Research Systems and is assumed to be reliable. The Small-Mid Cap Core Universe includes all managers categorized in the Small-Mid Cap Core asset class by eVestment. Please see additional disclosures presented at the bottom of the last page. This material is deemed supplemental and complements the performance and disclosure presented on the last page. ***Past performance is no guarantee of future results.***

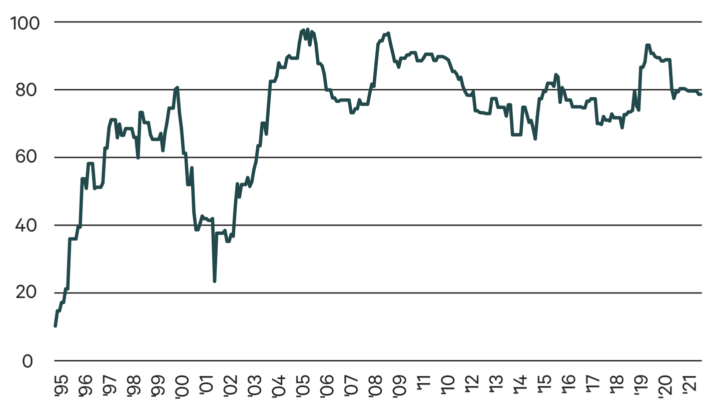
> *A concept in behavioral finance known as prospect theory tells us that investors feel the impact of negative returns more deeply than positive ones. At KAR, we strive to remain defensive even in the worst markets.*

DOWNSIDE CAPTURE THROUGH THE YEARS

In our view, the following chart illustrates that the KAR Small-Mid Cap Core strategy also has maintained consistent downside-capture ratios below 100 percent across its lifetime, meaning it has lost less than its benchmark during periods of negative returns for the benchmark. At the end of the day, we believe investors want an investment strategy that fulfills a beneficial function to their portfolios—return generation or risk mitigation, or a combination of both. Returns and risk must always be observed together, and we at KAR strive to be highly disciplined in balancing the two components of investing. A commitment to quality stocks and mindful risk management is the foundation of our investment discipline, and we believe the Small-Mid Cap Core strategy is an efficient diversification component in an investor's portfolio.

ROLLING 3-YEAR DOWNSIDE CAPTURE %

KAR Small-Mid Cap Core



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> *Instead of "active or passive?" investors would do well to ask themselves "high quality or low?"*

DISCLOSURE

Year	Composite Gross Return (%)	Composite Net Return (%)	Russell 2500™ Index Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Number of Accounts	Internal Dispersion (%)	Composite Assets ($ Millions)	Firm Assets ($ Millions)
2010	20.46	19.27	26.71	21.89	27.18	9	0.13	25	4,729
2011	8.45	7.56	(2.51)	18.53	23.73	25	0.13	37	5,232
2012	8.82	7.90	17.88	15.19	19.24	26	0.12	40	6,545
2013	31.61	30.47	36.80	12.17	15.85	27	0.24	59	7,841
2014	9.74	8.74	7.07	10.27	11.84	20	0.26	21	7,989
2015	6.16	5.23	(2.90)	12.23	12.59	18	0.23	21	8,095
2016	17.30	16.26	17.59	12.63	13.86	39	0.13	34	9,989
2017	19.77	18.71	16.81	11.15	12.31	83	0.31	137	14,609
2018	(4.41)	(5.27)	(10.00)	13.31	14.30	92	0.19	111	17,840
2019	40.77	39.54	27.77	14.86	14.79	135	0.69	225	25,685

The Russell 2500™ 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-Mid Cap Core 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-Mid Cap Core Portfolios. Small-Mid Cap Core Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2500™ 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 2500™ Index. The Russell 2500™ Index is a market capitalization-weighted index of the 2,500 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 composite was created in July 2000. 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 taxable and tax-exempt accounts. From July 1, 2000 to December 31, 2010, only non-taxable Small-Mid Cap Core Portfolios are included in the composite. 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.

Non-fee-paying portfolios represent < 1% of the composite assets at year-end from 2013 through 2019.

The standard management fee schedule currently in effect is as follows: 0.90% for the first $25 million; 0.80% on the next $25 million; 0.75% on the next $50 million; 0.60% on the balance. Prior to January 1, 2013, the standard management fee schedule in effect for this strategy was as follows: 0.85% for the first $25 million; 0.70% on the next $25 million; 0.60% on the next $50 million; 0.50% 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. Prior to January 1, 2011, the highest tier assumed of the standard management fee schedule for this product was 1.00%.

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.

To the extent actual performance results are shown in comparison to an index, the index is not actively managed and does not reflect the deduction of any investment management or other fees and expenses. Indices are not available for direct investment. This information is being provided by Kayne Anderson Rudnick Investment Management, LLC ("KAR") for illustrative purposes only. The S&P 500 Index is a market capitalization-weighted index which includes 500 of the largest companies in leading industries of the U.S. economy. The indexes are calculated on a total return basis with dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment. EBITDA, or earnings before interest, taxes, depreciation and amortization, is a measure of a company's overall financial performance and is used as an alternative to net income in some circumstances. Alpha measures the portfolio's value added relative to a benchmark. Sharpe Ratio is a risk-adjusted measure that measures reward per unit of risk. The higher the Sharpe Ratio, the better. The numerator is the difference between the portfolio's annualized return and the annualized return of a risk-free instrument. The denominator is the portfolio's annualized standard deviation.

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