

## All Cap Sustainable Growth Portfolio

Third Quarter 2018

### Portfolio Review

The All Cap Sustainable Growth portfolio underperformed the Russell 3000 Growth Index during the third quarter. Weak stock selection in communication services and financials detracted from performance. Losses were somewhat trimmed by strong stock selection in materials and an underweight in real estate.

Holdings that contributed the most to performance were Paycom Software and Fox Factory.

- Paycom's cloud-based HCM and payroll software have carved out a niche as a nimble SaaS offering serving small- and medium-sized businesses. Its out-of-the-box solution, low-cost R&D and sales office strategy combine to give the company some of the best margins among SaaS peers. After a lull in new sales-office openings in 2017, the company has ramped them up this year, which has contributed to a re-acceleration of growth. Paycom has also developed a differentiated mobile offering that increases user engagement, which is expected to drive customer value and, ultimately, retention and product upsell.
- Fox reported robust consolidated revenue growth, of nearly 30%, and an increase in operating earnings of about 28% in the quarter. The growth in revenue was fueled by an acquisition and organic growth in both the powered-vehicle and bike-operating segments. The Fox business continues to be supported by a strong brand and aims to drive ongoing growth through the market segment seeking premium and higher-performance products.

Holdings that detracted the most from performance were Autohome and Facebook.

- Autohome shares are down by more than 40% since June as auto sales in China slowed and then went into decline. Concerns also remain over the macroeconomic health of the country after U.S. tariffs. Given Autohome's strong competitive positioning, improved capital allocation and the expected long-term growth of the Chinese car market, we remain owners of the business.
- Things keep getting worse for social-media titan Facebook. Following the Cambridge Analytica scandal, where the company was found to have allowed unauthorized access to information on users and their friends, Facebook disclosed there had been a data breach. In the breach, hackers stole tokens with personal information that might be used on other sites as well. Also, a high-ranking Facebook executive was seen at Brett Kavanaugh's senate hearing over his Supreme Court nomination, which angered many the company's employees. Finally, the White House is considering an antitrust probe into Facebook. We realize that similar headline-grabbing news has temporarily affected a number of companies, which over time find ways to restore trust from their customers, users and investors. However, we are acutely monitoring these events around Facebook as they unfold and their impact on the company's fundamentals.

### Outlook

A flat Treasury yield curve continues to concern investors, the U.S. and China are locked in an ongoing trade spat, and troubles in emerging markets persist. But uncertainty and volatility in markets are to be expected. While we do pay attention to such factors causing concern, we also remain focused on the economic and business fundamentals. The U.S. appears to be one of the pillars of strength in the global economy today, with third-quarter GDP growth projected to be strong and various sectors continuing to expand. We are committed to investing in high-quality businesses that have a sustainable competitive edge. We believe this is the best long-term protection we can provide in today's environment of heightened market and geopolitical uncertainty.

### Purchases and Sales

New Purchases	Complete Sales
Elanco Animal Health	Booking Holdings
GrubHub	Starbucks
STAAR Surgical	Victory Capital Holdings
SVMK	Yelp

### Portfolio Highlights

**Style:** All Cap  
**Sub-Style:** Growth  
**Index:** Russell 3000® Growth  
**Portfolio Assets:** \$167.3 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer + Portfolio Manager	32
<b>Todd Beiley, CFA</b> Portfolio Manager + Senior Research Analyst	19
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	23
<b>Julie Biel, CFA</b> Senior Research Analyst	10
<b>Julie Kutsov</b> Senior Research Analyst	17
<b>Richard Sherry</b> Senior Research Analyst	20
<b>Craig Stone</b> Senior Research Analyst	29
<b>Chris Wright, CFA</b> Senior Research Analyst	8
<b>Chris Armbruster, CFA</b> Research Analyst	13
<b>Sean Dixon</b> Research Analyst	9
<b>Noran Eid</b> Research Analyst	5
<b>Adam Xiao, CFA</b> Research Analyst	3

### Top Five Holdings

As of September 30, 2018

Company	Percent of equity (%)
Amazon.com	5.3
Netflix	3.6
Paycom Software	2.9
Alibaba Group	2.8
Facebook	2.8
<b>Total</b>	<b>17.4</b>

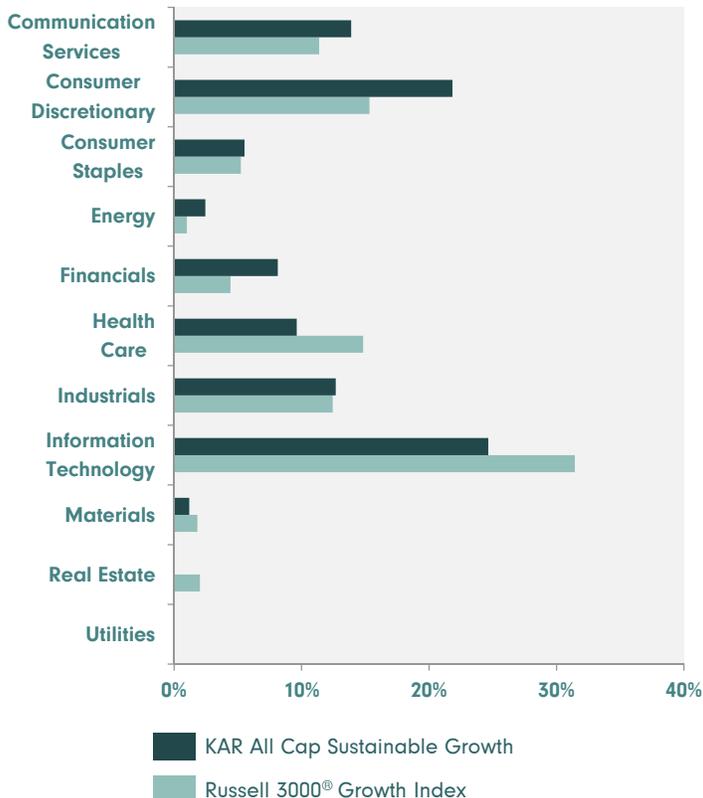
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation to purchase securities. A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. Holdings and weightings are based on a representative portfolio. Individual Investors' holdings may differ slightly. Data is obtained by FactSet Research Systems and is assumed to be reliable. Numbers may not always add up due to rounding. Past performance is no guarantee of future results.*

## Investment Process: Discovering Quality

<b>Development of High-Quality Universe</b>	<b>Proprietary Fundamental Research</b>	<b>Portfolio Construction</b>	<b>Sell Discipline</b>
<b>300 Stocks</b> <b>Quantitative Screens</b> <ul style="list-style-type: none"> <li>High return on capital over a full economic cycle</li> <li>Long and resilient earnings history</li> <li>High return on net operating assets</li> <li>Minimal debt</li> </ul> <b>Other Resources</b> <ul style="list-style-type: none"> <li>Research on existing portfolio holdings</li> <li>Meetings with companies</li> <li>Industry reviews</li> <li>Investment conferences</li> <li>Third-party research</li> </ul>	<b>100–120 Stocks</b> <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 superior 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>80–100 Stocks</b> <b>Position Weights</b> <ul style="list-style-type: none"> <li>Average position size is typically 2%</li> <li>Max initial position size is 5% (cost)</li> <li>Max position size is 10% (market)</li> </ul> <b>Sector Tolerances</b> <ul style="list-style-type: none"> <li>Typically +/- 10% of the Russell 3000® Growth Index, utilizing GICS sector classifications</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>Fully Invested</li> <li>Max cash position is 10%</li> </ul>	<b>Extended Valuation</b> <b>Portfolio Upgrade</b> <b>Diversification Requirements</b> <b>Acquisition Activity</b> <b>Negative Company or Industry Changes</b>
<b>Higher Quality   Stronger, More Consistent Growth   Better Value</b>			

## Sector Diversification

As of September 30, 2018



A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. Holdings and weightings are based on a representative portfolio. Individual Investors' holdings may differ slightly. The sector information represented above is based on GICS sector classifications. Data is obtained by FactSet Research Systems and is assumed to be reliable.

## Portfolio Characteristics

As of September 30, 2018

	KAR All Cap Sustainable Growth	Russell 3000® Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	20.5%	22.0%
Total Debt/EBITDA	2.1 x	2.7 x
Earnings Variability—Past 10 Years	47.2%	46.5%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	18.1%	12.7%
Earnings Per Share Growth—Past 10 Years	13.8%	13.2%
Capital Generation—{ROE x (1-Payout)}	16.9%	16.0%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	41.5 x	33.3 x
P/E-to-10-Year Growth	3.0 x	2.5 x
Free Cash Flow Yield*	2.4%	3.5%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap	\$125.9 B	\$295.3 B
Largest Market Cap	\$971.9 B	\$1,090.3 B

\*Free cash flow data is as of June 30, 2018. Prices are as of September 30, 2018.

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.

# All Cap Sustainable Growth Portfolio

Third Quarter 2018

## Risk-Return Analysis

3 Years Ending September 30, 2018



## Historical Returns

	KAR All Cap Sustainable Growth (gross)	KAR All Cap Sustainable Growth (net) <sup>†</sup>	Russell 3000® Growth Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of September 30, 2018			
3 <sup>rd</sup> Quarter	4.54	4.36	8.88
Year to Date	21.23	20.61	16.99
One Year	28.72	27.84	25.89
Three Years	24.27	23.42	20.36
Five Years	17.35	16.54	16.23
Inception*	17.45	16.64	16.73
<b>Annual Returns (%)</b>			
2017	35.78	34.85	29.59
2016	5.88	5.15	7.39
2015	7.41	6.67	5.09
2014	9.48	8.70	12.44
2013	32.17	31.27	34.23
2012 <sup>§</sup>	7.87	7.17	8.59

\*February 1, 2012

<sup>†</sup>All periods less than one year are total returns and are not annualized. Returns are preliminary.

<sup>‡</sup>Net of all fees and expenses. Assumes a 0.70% annual fee.

<sup>§</sup>Performance calculations are for eleven months ended December 31, 2012.

This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Returns of the Kayne Anderson Rudnick composite are preliminary and gross of fees unless otherwise specified. For further details on the composite, please see the disclosure statement in this presentation. Data is obtained from FactSet Research Systems and is assumed to be reliable. Past performance is no guarantee of future results.

## Performance Statistics

Inception\* to September 30, 2018

	KAR All Cap Sustainable Growth	Russell 3000® Growth Index
Annualized Return	17.45	16.73
Annualized Standard Deviation	11.34	10.29
Alpha	0.29	0.00
Beta	1.03	1.00
Sharpe Ratio	1.51	1.60
R-Squared	87.08	100.00

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Third Quarter 2018

### Disclosure

Kayne Anderson Rudnick Investment Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Kayne Anderson Rudnick Investment Management, LLC has been independently verified for the period from January 1, 1999 through December 31, 2017. The verification reports are available upon request.

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. Verification does not ensure the accuracy of any specific composite presentation.

Kayne Anderson Rudnick Investment Management, LLC, 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. Kayne Anderson Rudnick Investment Management, LLC manages a variety of equity and fixed-income strategies focusing exclusively on securities the firm defines as high quality.

The composite includes as all fully discretionary institutional and pooled All Cap Sustainable Growth Portfolios. All Cap Sustainable Growth Portfolios are invested in equity securities with market capitalizations consistent with the

Russell 3000® Growth 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 3000® Growth Index. The Russell 3000® Growth Index is a market capitalization-weighted index of growth-oriented stocks of the 3,000 largest 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 February 2012. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

The standard management fee schedule currently in effect is as follows: 0.70% for the first \$10 million; 0.55% on the next \$25 million; 0.45% on the next \$50 million; 0.35% 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 gross of management fees and withholding taxes and 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 or for time periods less than one year, no dispersion measure is presented. The three-year annualized ex-post standard deviation, which measures the variability of the composite (using gross returns) and the benchmark for the 36-month period, is not presented for periods prior to 2015 because 36 monthly composite returns are not available. 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 ended at the following dates:

3-Yr Annualized Standard Deviation (%)		
December 31	Composite	Benchmark
2015	12.34	10.95
2016	13.13	11.50
2017	12.08	10.77

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 3000® Growth Index Annual Return (%)	Internal Dispersion
2012*	6,545	67	12	7.87	7.17	8.59	N/A
2013	7,841	65	10	32.17	31.27	34.23	0.37
2014	7,989	89	10	9.48	8.70	12.44	0.37
2015	8,095	92	9	7.41	6.67	5.09	N/A
2016	9,989	97	10	5.88	5.15	7.39	0.10
2017	14,609	141	25	35.78	34.85	29.59	0.44

\*2012 performance numbers in this table reflect the product inception date of February 1, 2012 through December 31, 2012.

The Russell 3000® Growth Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.