

## Emerging Markets Small Cap Portfolio

Second Quarter 2019

### Market Review

Emerging markets equities ended the quarter more or less flat, not losing the gains of the first quarter, despite a sharp decline in May that was caused by increased uncertainty around the U.S.-China trade negotiations. The MSCI Emerging Markets Index returned 0.61% while the MSCI Emerging Markets Small Cap Index recorded a modest decline of 0.98%. For the first half of the year, returns remain robust at 10.58% for the MSCI Emerging Markets Index and at 6.70% for the MSCI Emerging Markets Small Cap Index. The key drivers that had led the strong returns during the first quarter mostly remained in place during the second quarter.

### Portfolio Review

The Emerging Markets Small Cap portfolio modestly outperformed its benchmark during the quarter and is solidly ahead of its benchmark for the year-to-date. The strategy protected better on the downside until May while outperforming modestly during June when the market rebounded.

The largest positive contributor during the quarter was Douzone Bizon. Douzone is a South Korea based Enterprise Resource Planning software provider, with a focus on small-to-medium enterprise customers. The stock underperformed during the first quarter but rebounded materially during the second quarter. The strong return during the second quarter was led by solid first-quarter results that positively surprised market expectations.

The second largest contributor was Sea Limited. Sea operates an e-commerce business as well as an online game development/publishing business in South East Asia. The company's fundamentals continued to be very strong in both businesses, widely exceeding market expectations.

Our largest detractor during the quarter was Café24. Café24 is a South Korea based e-commerce solution provider. It helps small-to-medium sized merchants build an online presence and provides various services related to operating and managing online stores. The stock has been an underperformer as the business fundamentals failed to meet market expectations. Even though the core business continued to grow as we expected, the profitability of the business materially disappointed as the management increased the level of investments. Although we continue to believe that Café24 has interesting growth prospects from a topline standpoint, we decided to exit our position as we no longer felt confident about the future economics of the business. Unlike our initial expectations, the business seems to require meaningful amounts of capital to grow, which creates uncertainty around the future profitability of the business. In addition, the management has shown increased ambitions of overseas expansion, which in our view is not a prudent allocation of capital and resources.

Our second largest detractor was SINA. SINA's largest asset by far is their stake in Weibo, one of the largest social media platforms in China. Weibo's business has been negatively affected by the slowing economy in China and the increased competition from newer social media platforms, such as the short video app Douyin.

### Purchases and Sales

#### New Purchases

58.com

Headhunter Group

Riverstone

#### Complete Sales

Café24

### Portfolio Highlights

**Style:** Small Cap

**Index:** MSCI® Emerging Markets Small Cap Index

**Portfolio Turnover:** 25%-35%

**Number of Holdings:** 30-60

### 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 MSCI® Emerging Markets Small Cap Index
- To achieve this return objective with a portfolio that exhibits lower overall risk characteristics

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	33
<b>Hyung Kim</b> Portfolio Manager + Senior Research Analyst	15
<b>Craig Thrasher, CFA</b> Portfolio Manager + Senior Research Analyst	15
<b>Ekaterina V. Advena</b> Research Analyst	10
<b>David Forward</b> Research Analyst	5

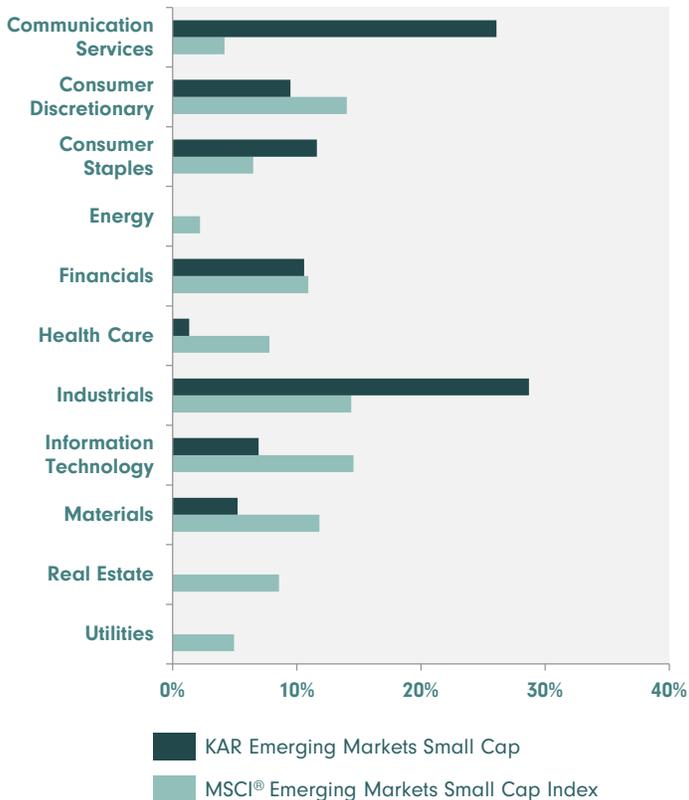
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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. 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>400 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>30–60 Stocks</b> <b>Position Weights</b> <ul style="list-style-type: none"> <li>Average position size is 1% to 5%</li> <li>Max initial position size is 5% (cost)</li> <li>Max position size is 10% (market)</li> </ul> <b>Sector and Geographic Tolerances</b> <ul style="list-style-type: none"> <li>Benchmark agnostic but seek broad diversification</li> </ul> <b>Holding Period</b> <ul style="list-style-type: none"> <li>Typically 3-to-5 years</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>Typical cash position less than 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 June 30, 2019



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 June 30, 2019

	KAR Emerging Markets Small Cap	MSCI Emerging Markets Small Cap Index
<b>Quality</b>		
Return on Equity—Past 5 Years	20.1%	11.8%
Total Debt/EBITDA	1.1 x	4.4 x
Interest Expense Coverage	0.7 x	2.5 x
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	13.5%	10.2%
Earnings Per Share Growth—Past 10 Years	9.5%	9.1%
Dividend Per Share Growth—Past 5 Years	11.4%	11.2%
Dividend Per Share Growth—Past 10 Years	11.4%	9.2%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	30.2 x	17.0 x
Dividend Yield	2.8%	2.8%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap	\$2.5 B	\$1.4 B
Largest Market Cap	\$11.4 B	\$3.4 B

Data is obtained from 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.

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Second Quarter 2019

## Top 10 Holdings

As of June 30, 2019

Company	Country	Percent of equity (%)
Vostok New Ventures	Sweden	5.7
Headhunter Group	Russian Federation	5.6
Corporacion Moctezuma SAB de CV	Mexico	3.9
ADDCN Technology	Taiwan	3.8
Voltronic Power Technology	Taiwan	3.6
Kerry TJ Logistics	Taiwan	3.5
Baozun	China	3.3
Sea	Singapore	3.1
CARE Ratings	India	3.1
Heineken Malaysia	Malaysia	3.1
<b>Total</b>		<b>38.6</b>

## Country Exposure

As of June 30, 2019



## Historical Returns

	KAR Emerging Markets Small Cap (gross)	KAR Emerging Markets Small Cap (net) <sup>‡</sup>	MSCI <sup>®</sup> Emerging Markets Small Cap Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of June 30, 2019			
2 <sup>nd</sup> Quarter	1.00	0.75	(0.98)
Year to Date	14.24	13.68	6.70
One Year	4.34	3.30	(5.12)
Three Years	16.18	15.04	5.46
Inception*	7.49	6.43	2.06
<b>Annual Returns (%)</b>			
2018	(3.82)	(4.78)	(18.59)
2017	33.20	31.90	33.84
2016	18.45	17.28	2.28
2015	(16.02)	(16.84)	(6.85)
2014	2.20	1.16	1.01

\*January 1, 2014

<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 1% annual fee.

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.

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Second Quarter 2019

### 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, 2018. 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 all fully discretionary institutional and pooled Emerging Markets Small Cap Portfolios. Emerging Markets Small Cap Portfolios are invested in equity securities

with market capitalizations in line with the MSCI® Emerging Markets Small Cap 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 MSCI® Emerging Markets Small Cap Index (net). The MSCI® Emerging Markets Small Cap Index is a market capitalization-weighted index of small-capitalization stocks from countries defined as Emerging Markets in the MSCI® Global Investable Market Indices Universe, excluding U.S. companies. The index is calculated on a total-return basis with dividends reinvested, net of withholding taxes. Benchmark returns are not covered by the report of the independent verifiers. The composite was created in January 2014. 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: 1.00% for the first \$100 million; 0.90% 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

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, 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 2016 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
2016	15.00	14.54
2017	14.07	14.57
2018	12.06	14.21

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	MSCI® Emerging Markets Small Cap Index (net) Annual Return (%)	Internal Dispersion
2014	7,989	5	< 5	2.20	1.16	1.01	N/A
2015	8,095	4	< 5	(16.02)	(16.84)	(6.85)	N/A
2016	9,989	5	< 5	18.45	17.28	2.28	N/A
2017	14,609	14	< 5	33.20	31.90	33.84	N/A
2018	17,840	70	< 5	(3.82)	(4.78)	(18.59)	N/A

The MSCI® Emerging Markets Small Cap Index is a trademark/service mark of MSCI®. MSCI® is a trademark of MSCI Inc..