

## Large Cap Quality Value Portfolio

Third Quarter 2018

### Portfolio Review

The Large Cap Quality Value portfolio slightly underperformed the Russell 1000 Value Index during the third quarter. Performance was negatively affected by weak stock selection and an underweight in health care, as well as weak stock selection in financials. Losses were offset by strong stock selection in consumer discretionary and industrials.

Stocks that contributed the most to performance in the quarter were Lowe's and TJX Companies.

- The new CEO of Lowe's has made encouraging progress in improving the company's margin and returns relative to those of Home Depot.
- Despite a difficult environment for most retailers, TJX's off-price offering continues to resonate with customers. The company has now posted an increase in same-store sales every year since 1997.

Holdings that detracted the most from performance in the quarter were Las Vegas Sands and Halliburton.

- Las Vegas Sands shares were negatively affected by concerns about how a slowdown in China's economy and a trade war with the U.S. will impact the company's Macau operations.
- Halliburton guided down expectations for the rest of the year due to weaker activity from some of its customers and to competitive pricing related to excess capacity.

### Purchases and Sales

There were no new purchases or complete sales in this strategy this quarter.

### 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.

### Portfolio Highlights

**Style:** Large Cap  
**Sub-Style:** Value  
**Index:** Russell 1000<sup>®</sup> Value  
**Portfolio Inception:** 1994  
**Portfolio Assets:** \$484.8 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research Experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	32
<b>Richard Sherry, CFA</b> Portfolio Manager + Senior Research Analyst	20
<b>Chris Armbruster, CFA</b> Research Analyst	13
<b>Noran Eid</b> Research Analyst	5

### Top Five Holdings

As of September 30, 2018

Company	Percent of equity (%)
Lowe's Companies	4.4
PNC Financial Services	4.1
U.S. Bancorp	4.1
TJX Companies	3.9
Honeywell International	3.7
<b>Total</b>	<b>20.2</b>

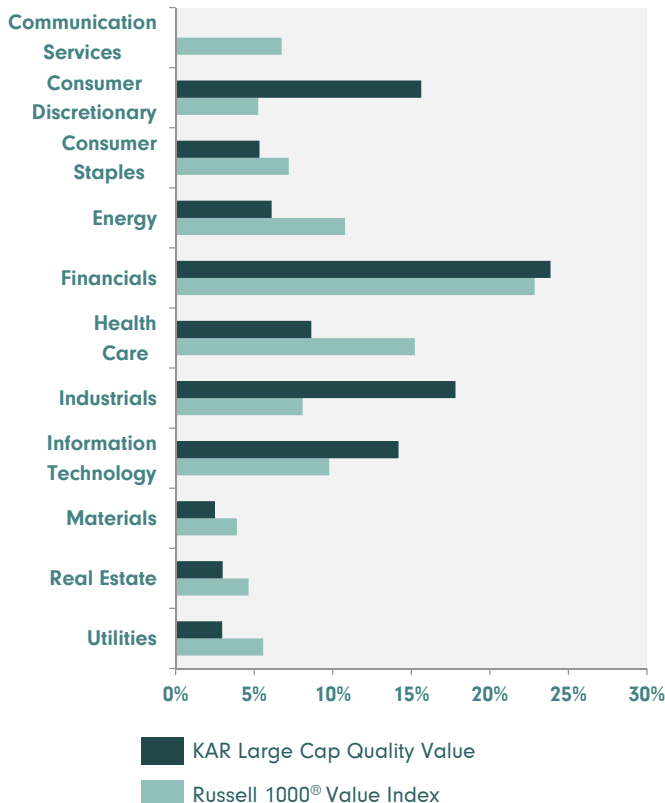
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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>200 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>50–60 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>25–35 Stocks</b> <b>Position Weights</b> <ul style="list-style-type: none"> <li>Typically 1%–5%</li> <li>Maximum position size is 10% (at market)</li> </ul> <b>Sector Tolerances</b> <ul style="list-style-type: none"> <li>Typically +/- 10% of the Russell 1000® Value 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>Typically will not exceed 10% once a portfolio is fully invested</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 Large Cap Quality Value	Russell 1000® Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	20.3%	12.3%
Total Debt/EBITDA	2.5 x	4.3 x
Earnings Variability—Past 10 Years	37.3%	52.4%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	9.9%	4.5%
Earnings Per Share Growth—Past 10 Years	8.9%	6.1%
Dividend Per Share Growth—Past 5 Years	11.7%	8.5%
Dividend Per Share Growth—Past 10 Years	11.3%	8.2%
Capital Generation—{ROE x (1-Payout)}	10.9%	6.7%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	23.8 x	19.7 x
Dividend Yield	2.1%	2.5%
Free Cash Flow Yield†	4.5%	4.2%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap	\$64.9 B	\$126.2 B
Beta*	0.9	1.0
Annualized Standard Deviation—Tenure Period*	13.3%	14.8%

\*Period from April 1, 2006 to September 30, 2018. This period delineates the period that Richard Sherry, CFA has managed the portfolio as the sole portfolio manager.  
†Free cash flow data is as of June 30, 2018. Prices are as of September 30, 2018. Excludes financials.

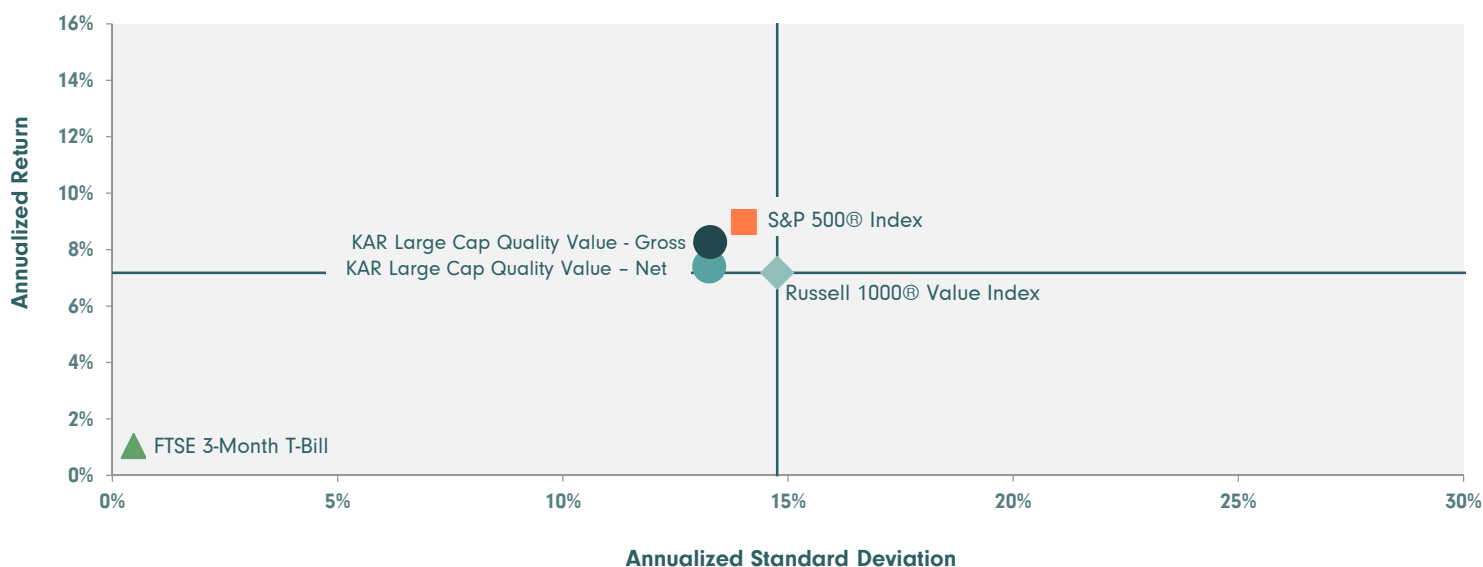
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. Past performance is no guarantee of future results.

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Third Quarter 2018

## Risk-Return Analysis

Tenure Period\*



## Historical Returns

	KAR Large Cap Quality Value (gross)	KAR Large Cap Quality Value (net) <sup>†</sup>	Russell 1000 <sup>®</sup> Value Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of September 30, 2018			
3 <sup>rd</sup> Quarter	5.22	5.04	5.70
Year to Date	7.18	6.62	3.92
One Year	15.62	14.83	9.45
Three Years	14.83	14.04	13.55
Five Years	11.04	10.27	10.72
Seven Years	14.45	13.66	15.02
Ten Years	10.17	9.33	9.79
Inception*	8.27	7.40	7.18
<b>Annual Returns (%)</b>			
2017	18.58	17.76	13.66
2016	10.70	9.93	17.34
2015	(3.09)	(3.76)	(3.83)
2014	13.88	13.07	13.45
2013	29.95	29.07	32.53
2012	13.63	12.85	17.51
2011	1.65	0.96	0.39
2010	14.30	13.19	15.51
2009	26.02	24.79	19.69
2008	(30.58)	(31.31)	(36.85)
2007	1.45	0.44	(0.17)
2006 <sup>§</sup>	14.21	13.37	15.40

## Performance Statistics

Tenure Period\*

	KAR Large Cap Quality Value	Russell 1000 <sup>®</sup> Value Index
Annualized Return	<b>8.27</b>	7.18
Annualized Standard Deviation	<b>13.27</b>	14.76
Alpha	<b>1.73</b>	0.00
Beta	<b>0.87</b>	1.00
Sharpe Ratio	<b>0.55</b>	0.42
Downside Capture	<b>92.23</b>	100.00
R-Squared	<b>93.64</b>	100.00

\*Period from April 1, 2006 to September 30, 2018. This period delineates the period that Richard Sherry, CFA has managed the portfolio as the sole portfolio manager.

<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 the nine months ended December 31, 2006.

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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### 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.

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 Large Cap Quality Value Composite has been examined for the period from January 1, 1999 through December 31, 2017. The verification and performance examination reports are available upon request.

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 Large Cap Quality Value Portfolios. Large Cap Quality Value Portfolios are invested in equity securities with market capitalizations consistent with the Russell 1000® Value Index, that have rising free cash flow, rising dividends and or stock repurchases, strong balance sheets and a high relative yield. For comparison purposes, the composite is measured against the

Russell 1000® Value Index. The Russell 1000® Value Index is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises of 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 October 1994. Previously, only institutional accounts were included. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

Prior to January 1, 2011, the composite minimum was \$250,000. Prior to July 1, 2004, the composite represented all non-taxable, fully discretionary Large Cap Quality Value Portfolios (including cash) under management for at least one full quarter. Prior to June 30, 2004, only eligible portfolios of at least \$500,000 are included in the composite. Prior to January 1, 2011, accounts that experienced a significant cash flow, as defined as aggregate flows that exceeded 25% of the account's beginning of period market value, were temporarily removed from the composite. As of January 1, 2011, the composite was redefined to include both institutional and mutual fund [or pooled] accounts.

This composite contained 26% non-fee-paying portfolios as of December 31, 2004, 15% non-fee-paying portfolios as of December 31, 2006, < 1% non-fee-paying portfolios as of each annual period from 2013-2017.

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 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 1/12<sup>th</sup> 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 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
2011	18.19	20.98
2012	14.75	15.73
2013	12.04	12.88
2014	8.95	9.33
2015	11.08	10.83
2016	11.43	10.93
2017	10.44	10.34

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 1000® Value Index Annual Return (%)	Internal Dispersion
2008	3,445	7	14	(30.58)	(31.31)	(36.85)	0.34
2009	4,010	11	14	26.02	24.79	19.69	0.20
2010	4,729	6	12	14.30	13.19	15.51	0.29
2011	5,232	63	24	1.65	0.96	0.39	0.21
2012	6,545	177	66	13.63	12.85	17.51	0.50
2013	7,841	183	61	29.95	29.07	32.53	0.34
2014	7,989	218	69	13.88	13.07	13.45	0.28
2015	8,095	197	65	(3.09)	(3.76)	(3.83)	0.27
2016	9,989	209	75	10.70	9.93	17.34	0.27
2017	14,609	465	394	18.58	17.76	13.66	1.29

The Russell 1000® Value Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.