

Large Cap Sustainable Growth Portfolio

Third Quarter 2018

Portfolio Review

The Large Cap Sustainable Growth portfolio underperformed the Russell 1000 Growth Index during the third quarter. Returns were negatively affected by weak stock selection in the consumer discretionary and communication services sectors. Losses were somewhat offset by positive stock selection in materials and an underweight in real estate.

Holdings that contributed the most to performance during the quarter were Amazon and Paycom Software.

- Amazon continues on its powerful growth trajectory driven by its wide-moat e-commerce business and dominant web-services offering. Amazon's advertising capabilities are becoming better understood and helped propel the company to a gigantic second-quarter revenue and earnings beat. In addition, Amazon showed operating leverage on a wide variety of expense items, including fulfillment, technology, content and marketing, hinting at the potential for meaningful margin expansion down the road.
- 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.

Positions that detracted the most from performance were Facebook and Alibaba Group Holding.

- 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 of 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.
- Alibaba's marketplaces have huge network effects and the company is fostering the ecosystem with investments in payments, physical retail, content, services and logistics partnerships. Those investments are severely pressuring margins in the near term, with gross and operating margins registering year-over-year declines in the most recent quarter. While we believe these investments are the right thing to do for the long term, the uncertainty over the margin pressure has led to notable weakness in the shares in the 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.

Purchases and Sales

New Purchases	Complete Sales
Avalara	Booking Holdings
The Trade Desk	Starbucks

Portfolio Highlights

Style: Large Cap
Sub-Style: Growth
Index: Russell 1000® Growth
Portfolio Assets: \$1,273.5 M
Portfolio Turnover: 25%–35%

Investment Management Team

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

Top Five Holdings

As of September 30, 2018

Company	Percent of equity (%)
Amazon.com	9.0
Alibaba Group	5.2
Facebook	4.8
Netflix	4.6
Visa	4.6
Total	28.2

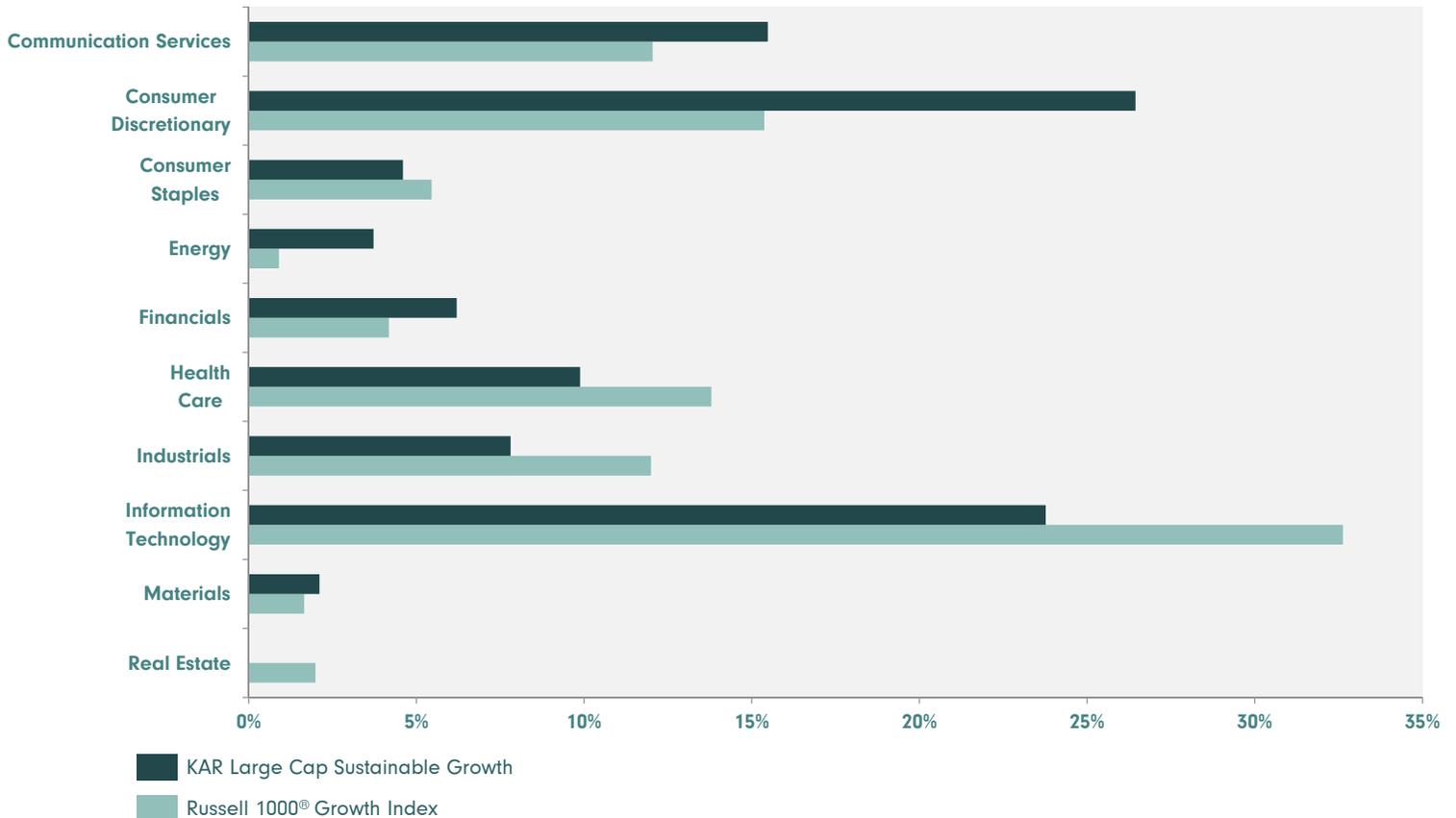
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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

Development of High-Quality Universe	Proprietary Fundamental Research	Portfolio Construction	Sell Discipline
<p>200 Stocks</p> <p>Quantitative Methods</p> <ul style="list-style-type: none"> Investment conferences Meetings with companies Industry reviews Research on existing portfolio holdings Third-party research <p>Quantitative Screens</p> <ul style="list-style-type: none"> High return on capital over a full economic cycle Earnings surprise Long and resilient earnings history High return on net operating assets Minimal debt 	<p>60-70 Stocks</p> <p>Qualitative Analysis</p> <ul style="list-style-type: none"> Evaluate sustainability of business model and assess management's ability to direct capital where it can create further control of its market <p>Financial Analysis</p> <ul style="list-style-type: none"> Evaluate basis for superior profitability, long-term growth potential, and ability to allocate capital appropriately <p>Valuation Analysis</p> <ul style="list-style-type: none"> Determine the current and potential value of the business 	<p>25-50 Stocks</p> <p>Position Weights</p> <ul style="list-style-type: none"> Typically 1%-3% Maximum position size is 10% (at market) <p>Sector Tolerances</p> <ul style="list-style-type: none"> Typically +/- 10% of the Russell 1000® Growth Index, utilizing GICS sector classifications <p>Holding Period</p> <ul style="list-style-type: none"> Typically 3-to-5 years, but is often longer Portfolio turnover is typically 25% to 35% <p>Cash Levels</p> <ul style="list-style-type: none"> Typically will not exceed 10% once a portfolio is fully invested 	<p>Extended Valuation</p> <p>Portfolio Upgrade</p> <p>Diversification Requirements</p> <p>Acquisition Activity</p> <p>Negative Company or Industry Changes</p>
<p>Higher Quality Stronger, More Consistent Growth Better Value</p>			

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.

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Portfolio Characteristics

As of September 30, 2018

	KAR Large Cap Sustainable Growth	Russell 1000® Growth Index
Quality		
Return on Equity—Past 5 Years	19.5%	22.6%
Total Debt/EBITDA	2.2 x	2.5 x
Earnings Variability—Past 10 Years	54.5%	44.6%
Growth		
Earnings Per Share Growth—Past 5 Years	19.6%	12.7%
Earnings Per Share Growth—Past 10 Years	14.9%	13.4%
Capital Generation—{ROE x (1-Payout)}	16.2%	16.2%
Value		
P/E Ratio—Trailing 12 Months	39.9 x	31.9 x
Free Cash Flow Yield*	2.6%	3.7%
Market Characteristics		
\$ Weighted Average Market Cap	\$205.6 B	\$319.8 B
Largest Market Cap	\$971.9 B	\$1090.3

Performance Statistics

Inception† to September 30, 2018

	KAR Large Cap Sustainable Growth	Russell 1000® Growth Index
Annualized Return	17.09	17.68
Annualized Standard Deviation	11.65	10.31
Beta	1.06	1.00
Sharpe Ratio	1.44	1.69
R-Squared	88.83	100.00

Historical Returns

	KAR Large Cap Sustainable Growth (gross)	KAR Large Cap Sustainable Growth (net)§	Russell 1000® Growth Index
Annualized Returns (%)†			
As of September 30, 2018			
3 rd Quarter	4.10	3.92	9.17
Year to Date	14.48	13.89	17.09
One Year	21.14	20.31	26.30
Three Years	19.56	18.74	20.55
Five Years	16.07	15.27	16.58
Inception*	17.09	16.28	17.68
Annual Returns (%)			
2017	35.87	34.95	30.21
2016	(0.03)	(0.73)	7.08
2015	10.43	9.68	5.67
2014	12.66	11.86	13.05
2013	30.66	29.78	33.48
2012	14.76	13.96	15.26

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

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

*January 1, 2012

§Net of all fees and expenses. Assumes a 0.70% 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 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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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 all fully discretionary institutional and pooled Large Cap Sustainable Growth Portfolios. Large Cap Sustainable Growth Portfolios are invested in equity securities with market capitalizations consistent with the Russell 1000® 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 1000® Growth Index. The Russell 1000® Growth Index is a market capitalization-weighted index of growth-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 January 2012. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

This composite contained 8% non-fee-paying portfolios as of December 31, 2013, 0.1% non-fee-paying portfolios as of December 31, 2014 and December 31, 2015 and <0.1% non-fee-paying portfolios as of December 31, 2016 and December 31, 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 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, 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 2014 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
2014		10.39	9.73
2015		12.33	10.85
2016		13.24	11.31
2017		12.52	10.69

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 1000® Growth Index Annual Return (%)	Internal Dispersion
2012	6,545	583	24	14.76	13.96	15.26	0.03
2013	7,841	674	25	30.66	29.78	33.48	0.08
2014	7,989	681	25	12.66	11.86	13.05	0.14
2015	8,095	687	31	10.43	9.68	5.67	0.35
2016	9,989	928	57	(0.03)	(0.73)	7.08	0.06
2017	14,609	1,175	142	35.87	34.95	30.21	1.46

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