

## Mid Cap Core Portfolio

### Second Quarter 2019



### Portfolio Review

The Mid Cap Core portfolio handily outperformed the Russell Midcap Index during the second quarter. Performance was driven by solid stock selection in the consumer discretionary and technology sectors, while consumer staples and financial services detracted from performance.

The biggest contributors to performance during the quarter were Brooks Automation and Aspen Technology. Over the last 12 months, Brooks Automation has made important strides in transitioning its portfolio away from more commodity businesses to ones with more consistent financial results and differentiated technology. This included selling its semiconductor vacuum business and adding a new gene technology business in Life Sciences. Additionally, it has seen organic growth improve and profitability outpace sales growth. We believe the resulting portfolio changes have made the company more durable in challenging markets with better profitability prospects. Aspen Technology has delivered sustained growth in both its core process optimization software as well as its new suite of products called its Asset Performance Management suite. This offering adds materially to Aspen's total addressable market and has been met with healthy demand by new and existing customers. As a result of healthy topline growth, the company has also delivered strong earnings-per-share expansion, helped in part by sizable share repurchase. The company's competitive position remains as strong as ever.

The biggest detractors from the portfolio were Lamb Weston Holdings and Globus Medical. Despite continued strong results, Lamb Weston's stock declined due to investor concerns about significant capacity additions announced by potato processing oligopoly competitors including Lamb Weston. We continue to monitor the supply capacity additions relative to demand growth, but are not surprised by the large capacity announcements given industry utilization of plants currently running over 100%, while demand continues to grow. Lamb Weston continues to benefit from scale advantages, strong global demand for frozen potatoes and rational competition among the three global players who have 70% market share combined. Globus Medical saw its shares decline in the last year due to lower revenue growth in the latest quarter as the company has been seeing some elongated sales cycles as hospitals weigh competitive products. We believe Globus' superior technology should win out in the end.

### Purchases and Sales

During the quarter, we purchased Autohome, Old Dominion Freight Line and Primerica. We sold Signature Bank, Skyworks Solutions and WABCO Holdings.

- Autohome operates the leading automotive-related website in China. Autohome's site has the most users and highest time spent per user among automotive-related websites in China. Autohome's stock is priced attractively as a result of investors' worries over weak new car sales in China, a slowing Chinese economy and trade-war risk. The company's competitive position and long-term prospects remain healthy.
- Old Dominion Freight Line is the second largest less-than-truckload trucking (LTL) company in the U.S. with 10% market share. Founded in 1934 and headquartered in Thomasville, North Carolina, Old Dominion operates 235 service centers in 48 states. Industry participants indisputably acknowledge Old Dominion as the best-in-class operator. Old Dominion's network density and operating culture focused on execution enable the highest level of service quality.
- Primerica engages in the distribution of financial products to middle income households in the United States and Canada utilizing a multi-level marketing sales structure. The low dollar amounts of the policies and mutual fund products Primerica sells are uneconomical for a full-time captive distribution force. As a result, in addition to selling its own term life product, Primerica receives commissions from third party carriers and mutual fund families to distribute their products rather than compete directly with Primerica for new middle-market business.
- We sold Signature Bank due to the issues with the company's taxi medallion loan portfolio that created an overhang on the business (now seemingly behind them), new growth areas geographically (western U.S., such as California) outside of its core regional businesses in the northeastern U.S. and an aggressive move into venture capital lending at a period of the market that is clearly very mature at this point. All of this combined provided a more opaque outlook for the firm so we sold our position.
- We exited our position in Skyworks Solutions due to weaker iPhone sales and weaker handset sales with marquee customers in China. Skyworks has been unable to diversify significantly away from mobile through its broad-markets business.
- WABCO Holdings was sold following the company's announcement on March 28 that it was being acquired by German company ZF Friedrichshafen in an all-cash transaction. While the deal is not scheduled to close until early 2020, we sold our position to fund a new position.

### Outlook

Corporate growth rates in the U.S. grew modestly in the first quarter and we still believe S&P 500 earnings can advance in the mid single-digit range in 2019. Investors weren't rewarded for outstanding earnings growth in 2018 (+20% growth) with the S&P 500 declining over 4%. Corporate margins have not fallen apart in 2019 and this has caused stock returns to catch up to actual earnings growth. Returns from here will be driven by prospects for continued earnings growth into 2020.

### Portfolio Highlights

**Style:** Mid Cap  
**Sub-Style:** Core  
**Index:** Russell Midcap®  
**Portfolio Inception:** 2000  
**Portfolio Assets:** \$802.4 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	33
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	24
<b>Craig Stone</b> Portfolio Manager + Senior Research Analyst	30
<b>Todd Bailey, CFA</b> Senior Research Analyst	20
<b>Julie Biel, CFA</b> Senior Research Analyst	11
<b>Julie Kutasov</b> Senior Research Analyst	18
<b>Chris Wright, CFA</b> Senior Research Analyst	7
<b>Sean Dixon</b> Research Analyst	10
<b>Adam Xiao, CFA</b> Research Analyst	4

### Top Five Holdings

As of June 30, 2019

Company	Percent of equity (%)
AMETEK	5.8
Aspen Technology	5.5
Tractor Supply	5.3
Cooper Companies	5.3
Brooks Automation	4.5
<b>Total</b>	<b>26.5</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

Development of High-Quality Universe	Proprietary Fundamental Research	Portfolio Construction	Sell Discipline
<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 3%-4%</li> <li>Maximum weight 10% (at market)</li> </ul> <b>Sector Tolerances*</b> <ul style="list-style-type: none"> <li>Typically +/- 10% of the Russell Midcap® Index, utilizing Russell sector classifications</li> </ul> <b>Non-U.S. Holdings</b> <ul style="list-style-type: none"> <li>Not to exceed 20% (at market)</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>

\*A consequence of our high-quality investment philosophy is that certain sectors do not meet our financial criteria and offer fewer investable ideas. Our portfolios therefore will likely have persistently low exposure to those segments of the economy (and therefore may cause our sector weights to be outside of the 10% threshold relative to the benchmark). Companies operating in these areas produce consistently low or no profitability, are capital intensive, are heavily indebted, or have overly complex balance sheet structures. These may include large sectors such as Financials (real estate and banking) and Health Care (biotechnology) and also smaller sectors such as Materials & Processing (chemicals, metals and mining), Energy (oil and gas), and Utilities where we will have little to no exposure.

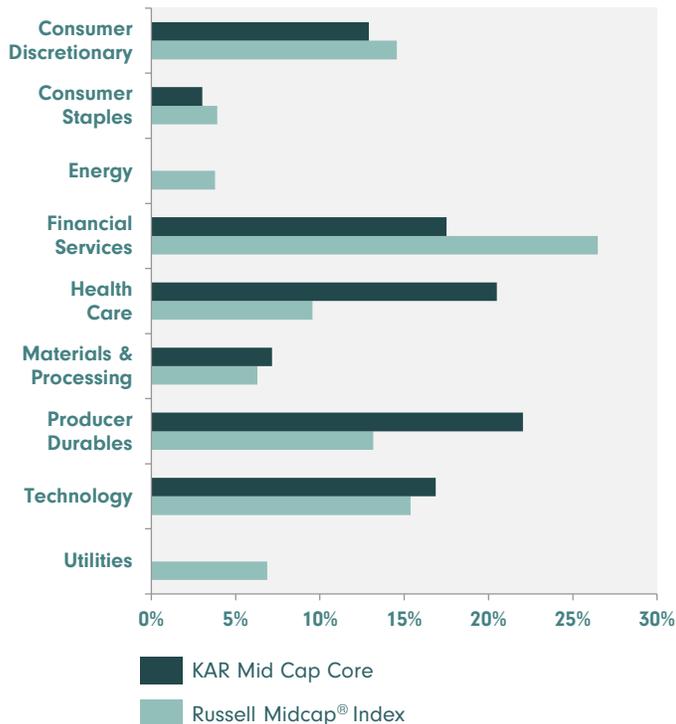
Higher Quality

Stronger, More Consistent Growth

Better Value

## 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 Russell sector classifications. Data is obtained by FactSet Research Systems and is assumed to be reliable.

## Portfolio Characteristics

As of June 30, 2019

	KAR Mid Cap Core	Russell Midcap® Index
<b>Quality</b>		
Return on Equity—Past 5 Years	22.8%	14.5%
Total Debt/EBITDA	2.2 x	7.6 x
Earnings Variability—Past 10 Years	35.8%	53.2%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	14.8%	11.4%
Earnings Per Share Growth—Past 10 Years	15.2%	10.2%
Dividend Per Share Growth—Past 5 Years	14.2%	8.6%
Dividend Per Share Growth—Past 10 Years	16.7%	10.7%
Capital Generation—{ROE x (1-Payout)}	16.9%	9.8%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	29.5 x	24.5 x
Dividend Yield	0.8%	1.7%
Free Cash Flow Yield†	3.3%	3.4%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$12.9 B	\$14.3 B
Largest Market Cap—3-Year Avg.	\$37.0 B	\$43.0 B
Annualized Standard Deviation—Since Inception*	14.1%	16.6%

†Free cash flow data is as of March 31, 2019. Prices are as of June 30, 2019. Excludes financials. \*January 1, 2000

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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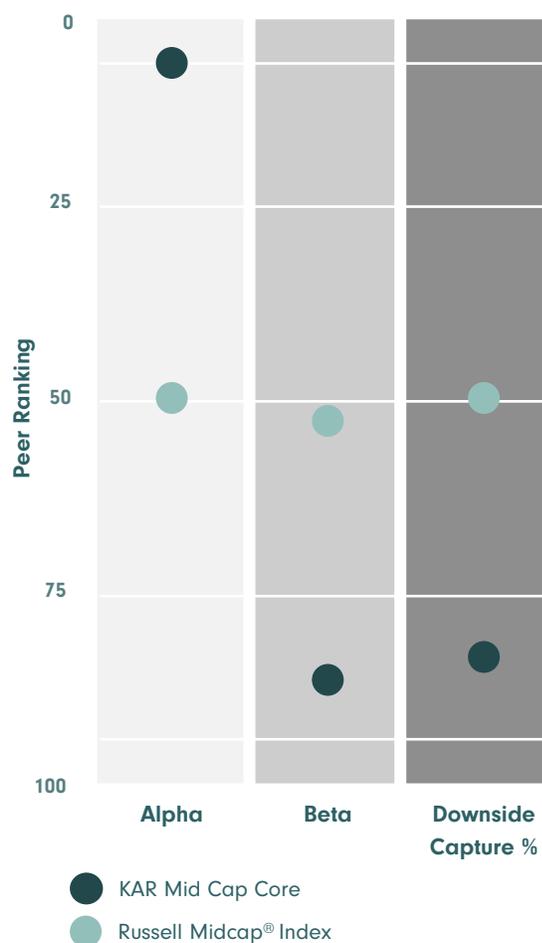
## Strong Risk-Adjusted Returns

Inception\* to June 30, 2019



## Peer Comparison Chart

Ten Years Ending June 30, 2019



## Historical Returns

	KAR Mid Cap Core (gross)	KAR Mid Cap Core (net) <sup>‡</sup>	Russell Midcap® Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of June 30, 2019			
2 <sup>nd</sup> Quarter	6.41	6.22	4.13
Year to Date	21.20	20.76	21.35
One Year	11.14	10.31	7.83
Three Years	16.48	15.62	12.16
Five Years	14.19	13.35	8.63
Seven Years	15.85	15.00	13.37
Ten Years	16.20	15.30	15.16
Inception*	10.10	9.13	8.84

	KAR Mid Cap Core (gross)	KAR Mid Cap Core (net) <sup>‡</sup>	Russell Midcap® Index
<b>Annual Returns (%)</b>			
2018	(3.21)	(3.93)	(9.06)
2017	26.13	25.21	18.52
2016	12.32	11.49	13.80
2015	3.37	2.60	(2.44)
2014	18.17	17.28	13.22
2013	28.54	27.62	34.76
2012	16.58	15.72	17.28
2011	4.52	3.76	(1.55)
2010	20.23	19.06	25.48
2009	21.11	19.92	40.48
2008	(28.63)	(29.37)	(41.46)
2007	6.45	5.40	5.60
2006	13.05	11.93	15.26
2005	8.86	7.78	12.65
2004	15.23	14.08	20.22
2003	26.72	25.49	40.06
2002	(12.62)	(13.50)	(16.19)
2001	(2.76)	(3.71)	(5.62)
2000	21.54	20.33	8.25

\*January 1, 2000

<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 0.75% 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. The Mid Cap Core Universe includes all managers categorized in the mid cap core asset class by eVestment. 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 June 30, 2019

	KAR Mid Cap Core	Russell Midcap® Index
Annualized Return	10.10	8.84
Annualized Standard Deviation	14.06	16.62
Alpha	2.59	0.00
Beta	0.78	1.00
Sharpe Ratio	0.60	0.43
R-Squared	85.11	100.00

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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, 2018.

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 Mid Cap Core Composite has been examined for the period from January 1, 2000 through December 31, 2018. 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 Mid Cap Core Portfolios. Mid Cap Core Portfolios are invested in equity securities with market capitalizations consistent with the Russell Midcap® 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 Midcap® Index. The Russell Midcap® Index is a market capitalization-weighted index of the 800 smallest companies in the Russell 1000® Index, which comprises the 1,000 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 2000. 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. As of January 1, 2011, the composite was redefined to include both institutional and mutual fund [or pooled] accounts. Prior to January 1, 2011, 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.

The standard management fee schedule currently in effect is as follows: 0.75% for the first \$25 million; 0.65% on the next \$25 million; 0.55% 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.

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	17.51	21.86
2012	15.39	17.44
2013	12.53	14.23
2014	10.29	10.29
2015	11.96	11.00
2016	12.31	11.72
2017	10.76	10.51
2018	11.33	12.15

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell Midcap® Index Annual Return (%)	Internal Dispersion
2009	4,010	8	9	21.11	19.92	40.48	0.40
2010	4,729	8	7	20.23	19.06	25.48	0.31
2011	5,232	10	14	4.52	3.76	(1.55)	0.26
2012	6,545	11	15	16.58	15.72	17.28	0.18
2013	7,841	15	15	28.54	27.62	34.76	0.48
2014	7,989	17	12	18.17	17.28	13.22	0.13
2015	8,095	40	15	3.37	2.60	(2.44)	0.44
2016	9,989	79	22	12.32	11.49	13.80	0.36
2017	14,609	170	72	26.13	25.21	18.52	0.23
2018	17,840	352	181	(3.21)	(3.93)	(9.06)	0.30

The Russell Midcap® Index and Russell 1000® Index are trademarks/service marks of Frank Russell Company. Russell® is a trademark of Frank Russell Company.