

Small Cap Core Portfolio

Second Quarter 2019



Portfolio Review

The Small Cap Core portfolio handily outperformed the Russell 2000 Index during the second quarter. Performance primarily was driven by strong stock selection and an overweight in producer durables and strong stock selection in materials and processing. Gains were offset somewhat by an underweight in utilities.

The biggest contributors to performance during the quarter were Copart and MarketAxess Holdings.

- In the second quarter of 2019, Copart continued to experience strong growth in both salvage car volumes and sustained average selling price (ASP) growth via selling high value cars to international rebuilders. We believe this success is due to Copart's large and growing network of both domestic and international buyers.
- MarketAxess' stock appreciated in the most recent quarter after the company reported significant growth in the U.S. high-yield bond, emerging market bond and Eurobond markets driven by its all-to-all trading protocol Open Trading. The company reported increased algorithmic trading activity on Open Trading, enhancing liquidity and attractiveness of the platform. MarketAxess should continue to be a secular share-gainer because of the cost efficiencies provided by the network's growing liquidity pool.

The biggest detractors from the portfolio were Autohome and Moelis & Co.

- Weak auto sales in China, renewed trade conflicts and disruption related to a new emissions standard led to a decline in Autohome's shares in the second quarter.
- Moelis' recent quarterly results were down meaningfully year-over-year due to market volatility at the end of last year and fewer deal closings than is typical. Europe was cited as being an especially bad mergers and acquisition (M&A) market. While the equity markets have recovered in 2019, trade war and recession fears remain which have caused investors to take a dimmer view on the outlook for M&A activity. We acknowledge that the M&A environment is facing some challenges and that if the economy takes a downturn this would be an additional headwind. However, these are cyclical issues and not an indication of a structural problem with the business. Our investment is predicated on Moelis' growing stature as a trusted financial advisor as evidenced by the company's ongoing market-share gains. In addition, Moelis' restructuring business should have increased activity in a downturn, which would help dampen the headwind of a souring economy. For these reasons, we remain owners of the business.

Purchases and Sales

We purchased Atrion and sold our position in HFF during the quarter.

Atrion develops, manufactures and sells products for fluid delivery, cardiovascular and ophthalmology applications worldwide. Atrion creates and markets complex products utilized in various medical procedures that are vital for treatment. While some of these products may seem commoditized (i.e., valves and clamps), they are highly engineered with little room for malfunction in areas such as intensive care and oncology. Given their products, Atrion sees relatively little competition from larger players given the small size of markets and the product average selling price.

We sold HFF following the announced acquisition of the company by Jones Lang LaSalle.

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: Small Cap
Sub-Style: Core
Index: Russell 2000®
Portfolio Inception: 1992
Portfolio Assets: \$7,326.9 M
Portfolio Turnover: 25%–35%

Investment Management Team

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

Top Five Holdings

As of June 30, 2019

Company	Percent of equity (%)
Copart	8.0
Autohome	7.8
Teledyne Technologies	7.0
CDW	6.7
Primerica	5.8
Total	35.4

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
200 Stocks Quantitative Screens <ul style="list-style-type: none"> High return on capital over a full economic cycle Long and resilient earnings history High return on net operating assets Minimal debt Other Resources <ul style="list-style-type: none"> Research on existing portfolio holdings Meetings with companies Industry reviews Investment conferences Third-party research 	50–60 Stocks Qualitative Analysis <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 Financial Analysis <ul style="list-style-type: none"> Evaluate basis for superior profitability, long-term growth potential, and ability to allocate capital appropriately Valuation Analysis <ul style="list-style-type: none"> Determine the current and potential value of the business 	20–40 Stocks Position Weights <ul style="list-style-type: none"> Typically 3%–4% Maximum weight 10% (at market) Sector Tolerances* <ul style="list-style-type: none"> Typically +/- 10% of the Russell 2000® Index, utilizing Russell sector classifications Non-U.S. Holdings <ul style="list-style-type: none"> Not to exceed 20% (at market) Holding Period <ul style="list-style-type: none"> Typically 3-to-5 years, but is often longer Portfolio turnover is typically 25% to 35% Cash Levels <ul style="list-style-type: none"> Typically will not exceed 10% once a portfolio is fully invested 	Extended Valuation Portfolio Upgrade Diversification Requirements Acquisition Activity Negative Company or Industry Changes

*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.

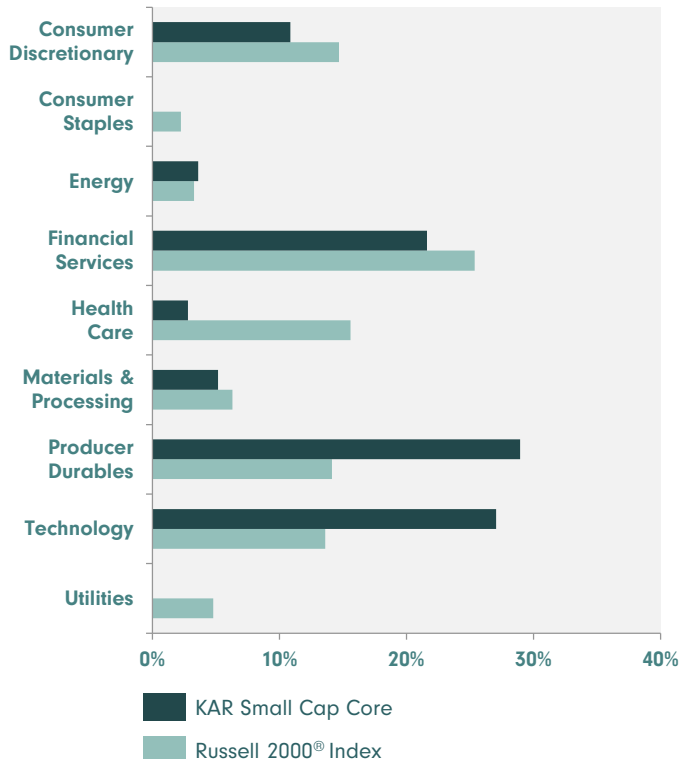
Higher Quality

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 Small Cap Core	Russell 2000® Index
Quality		
Return on Equity—Past 5 Years	28.7%	10.0%
Total Debt/EBITDA	1.3 x	5.0 x
Earnings Variability—Past 10 Years	25.8%	72.5%
Growth		
Earnings Per Share Growth—Past 10 Years	14.1%	8.5%
Dividend Per Share Growth—Past 10 Years	14.8%	6.3%
Capital Generation—{ROE x (1-Payout)}	23.4%	7.7%
Value		
P/E Ratio—Trailing 12 Months	28.5 x	34.4 x
Dividend Yield	0.8%	1.4%
Free Cash Flow Yield†	2.9%	1.6%
Market Characteristics		
\$ Weighted Average Market Cap—3-Year Avg.	\$6.0 B	\$2.2 B
Largest Market Cap—3-Year Avg.	\$11.4 B	\$9.2 B
Annualized Standard Deviation—Since Inception‡	15.1%	18.6%

†Free cash flow data is as of March 31, 2019. Prices are as of June 30, 2019. Excludes financials. ‡April 1, 1992

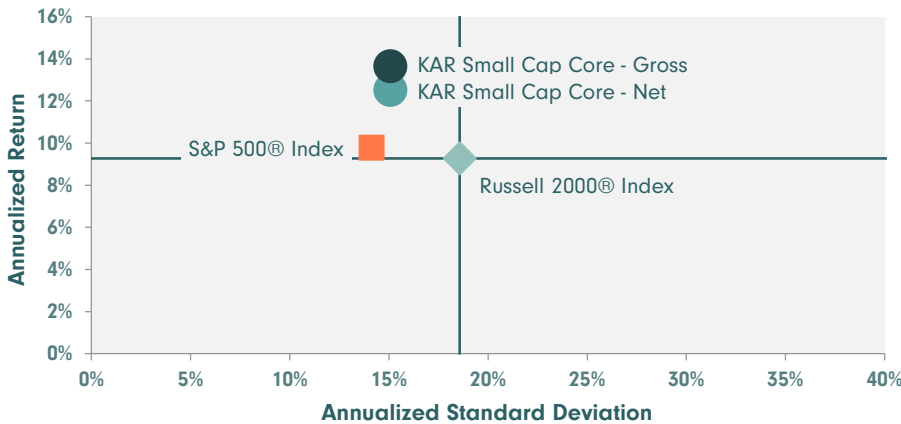
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics.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

Small Cap Core Portfolio

Second Quarter 2019

Strong Risk-Adjusted Returns

Inception* to June 30, 2019



Historical Returns

	KAR Small Cap Core (gross)	KAR Small Cap Core (net) [†]	Russell 2000 [®] Index
Annualized Returns (%)[†]			
As of June 30, 2019			
2 nd Quarter	5.79	5.53	2.10
Year to Date	28.09	27.47	16.98
One Year	13.94	12.81	(3.31)
Three Years	24.13	22.91	12.30
Five Years	17.62	16.47	7.06
Seven Years	17.42	16.26	11.63
Ten Years	19.33	18.16	13.45
Inception*	13.64	12.52	9.27

Annual Returns (%)	KAR Small Cap Core (gross)	KAR Small Cap Core (net) [†]	Russell 2000 [®] Index
2018	(0.83)	(1.82)	(11.01)
2017	36.61	35.29	14.65
2016	19.10	17.93	21.31
2015	2.37	1.36	(4.41)
2014	7.51	6.43	4.89
2013	30.10	28.84	38.82
2012	13.42	12.29	16.35
2011	10.14	9.08	(4.18)
2010	25.00	23.79	26.85
2009	32.09	30.80	27.17
2008	(27.64)	(28.40)	(33.79)
2007	3.16	2.14	(1.57)
2006	13.43	12.30	18.37
2005	7.78	6.70	4.55
2004	23.37	22.14	18.33
2003	34.34	33.06	47.25
2002	(12.74)	(13.62)	(20.48)
2001	6.16	5.13	2.49
2000	21.38	20.18	(3.02)
1999	6.09	5.06	21.26
1998	21.39	20.20	(2.55)
1997	20.82	19.63	22.36
1996	27.00	25.74	16.49
1995	17.47	16.30	28.45
1994	2.75	1.74	(1.82)
1993	20.00	18.84	18.88
1992 [§]	9.65	8.85	10.16

*April 1, 1992

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

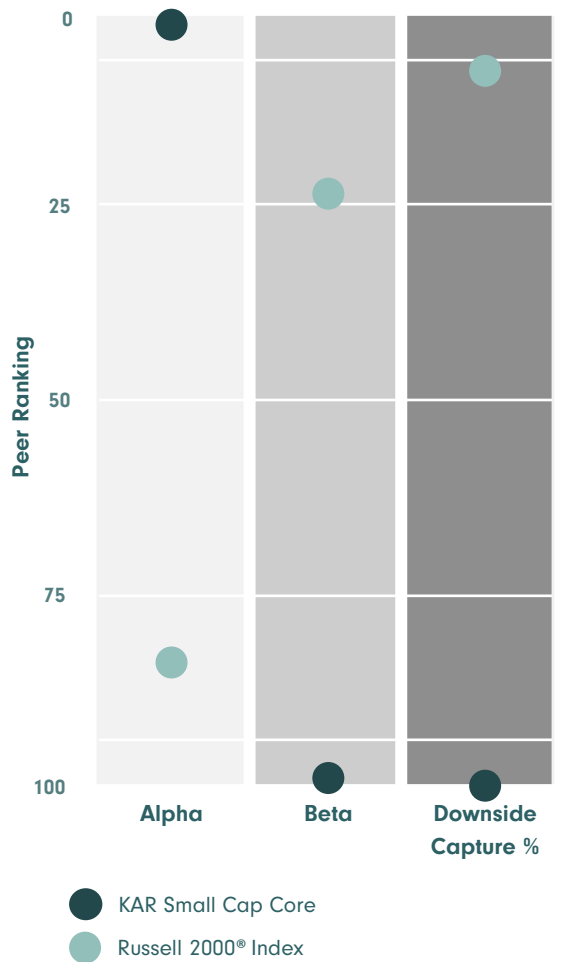
[‡]Net of all fees and expenses. Assumes a 1% annual fee.

[§]Performance calculations are for the nine months ended December 31, 1992.

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 Small Cap Core Universe includes all managers categorized in the small 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.

Peer Comparison Chart

Ten Years Ending June 30, 2019



Performance Statistics

Inception* to June 30, 2019

	KAR Small Cap Core	Russell 2000 [®] Index
Annualized Return	13.64	9.27
Annualized Standard Deviation	15.08	18.57
Alpha	5.90	0.00
Beta	0.71	1.00
Sharpe Ratio	0.74	0.36
R-Squared	75.76	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 Small Cap Core Composite has been examined for the period from January 1, 1999 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 discretionary institutional and pooled Small Cap Core Portfolios. Small Cap Core Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2000® 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 2000® Index. The Russell 2000® Index is a market capitalization-weighted index of the 2,000 smallest 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 April 1992. 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 December 31, 2010, only non-taxable portfolios are included in the composite. As of January 1, 2011, the composite was redefined to include both taxable and tax-exempt accounts. As of January 1, 2011, the composite was redefined to include both institutional and mutual fund [or pooled] accounts. Previously, only institutional accounts were included. 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: 1.00% for the first \$25 million; 0.80% on the next \$25 million; 0.70% 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	20.61	25.34
2012	15.26	20.48
2013	11.81	16.68
2014	9.79	13.31
2015	11.28	14.16
2016	12.50	15.99
2017	11.59	14.11
2018	14.03	16.01

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2000® Index Annual Return (%)	Internal Dispersion
2009	4,010	75	23	32.09	30.80	27.17	0.55
2010	4,729	63	22	25.00	23.79	26.85	0.76
2011	5,232	362	88	10.14	9.08	(4.18)	0.67
2012	6,545	541	102	13.42	12.29	16.35	0.33
2013	7,841	1018	121	30.10	28.84	38.82	1.41
2014	7,989	965	145	7.51	6.43	4.89	0.24
2015	8,095	1048	157	2.37	1.36	(4.41)	0.23
2016	9,989	1303	209	19.10	17.93	21.31	0.49
2017	14,609	2091	392	36.61	35.29	14.65	0.7
2018	17,840	2619	557	(0.83)	(1.82)	(11.01)	0.45

The Russell 2000® Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.