

Small Cap Core Portfolio

Fourth Quarter 2018



Portfolio Review

The Small Cap Core portfolio outperformed the Russell 2000 Index during the fourth quarter. Outperformance was primarily due to strong stock selection in the technology and producer durables sectors. Gains were somewhat offset by an underweight in utilities and weak stock selection in financial services.

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

- MarketAxess shares appreciated after the company reported significant share gains in the U.S. high-yield bond, emerging-market bond, and Eurobond markets, driven by its all-to-all trading protocol Open Trading. We expect the business to continue to be a secular share-gainer because of the cost efficiencies provided by the network's growing liquidity pool.
- Atrion's shares rose in the quarter after the company posted solid growth in its product lines thanks to new product innovation as well as recurring revenue from its existing portfolio.

The biggest detractors from the portfolio were Aspen Technology and Dril-Quip.

- After outperforming for much of the year, shares in Aspen corrected in line with other software technology stocks. Financial results this year have been negatively impacted by accounting changes from 606, which makes year-over-year comparisons more challenging. Still, demand remains strong for the core platform and the asset performance maintenance suite of products. Free cash flow continues to be strong with management repurchasing shares regularly.
- The decline in oil prices is muting offshore drilling activity, which has hurt Dril-Quip's current results and near-term outlook.

Purchases and Sales

There were no new buys or complete sales in the strategy in the fourth quarter.

Outlook

There is a clear disconnect between the market's view of 2019-2020 economic growth and the Federal Reserve's. Equity, bond and commodity investors are pricing in much slower growth—perhaps even a recession—into this year and the next. The Fed, on the other hand, is looking at current conditions, which are primarily still solid. Markets will perform better when these two points of view converge.

We agree more with the market than with the Fed about 2019 growth prospects. Economic growth will be much slower than in 2018 but still positive—our best guess is in the 1.5%-to-2% range—and the S&P 500 Index will be able to grow earnings-per-share in the 5%-to-8% range. Equity returns may actually exceed profit growth as confidence gets restored in the sustainability of the corporate-profit outlook.

We cannot pinpoint where material excesses are in the global economy that could cause a recession over the next year or two. Yet after meaningful declines in markets over the last three months, we see that it is going to take some time to restore confidence among investors and that companies are going to have to prove that they can deliver positive earnings growth even in a slower-growth economy.

Timing the stock market is an impossible task even for seasoned professionals. We emphasize the importance of staying focused on long-term goals to help stomach the inevitable short-term volatility associated with investing.

Portfolio Highlights

Style: Small Cap
Sub-Style: Core
Index: Russell 2000®
Portfolio Inception: 1992
Portfolio Assets: \$5,708.3 M
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	32
Todd Bailey, CFA Portfolio Manager + Senior Research Analyst	19
Jon Christensen, CFA Portfolio Manager + Senior Research Analyst	23
Julie Biel, CFA Senior Research Analyst	10
Julie Kutasov Senior Research Analyst	17
Craig Stone Senior Research Analyst	29
Chris Wright, CFA Senior Research Analyst	6
Sean Dixon Research Analyst	9
Adam Xiao, CFA Research Analyst	3

Top Five Holdings

As of December 31, 2018

Company	Percent of equity (%)
Autohome	8.8
Teledyne Technologies	6.6
Copart	6.3
CDW	6.1
Primerica	5.8
Total	33.6

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.

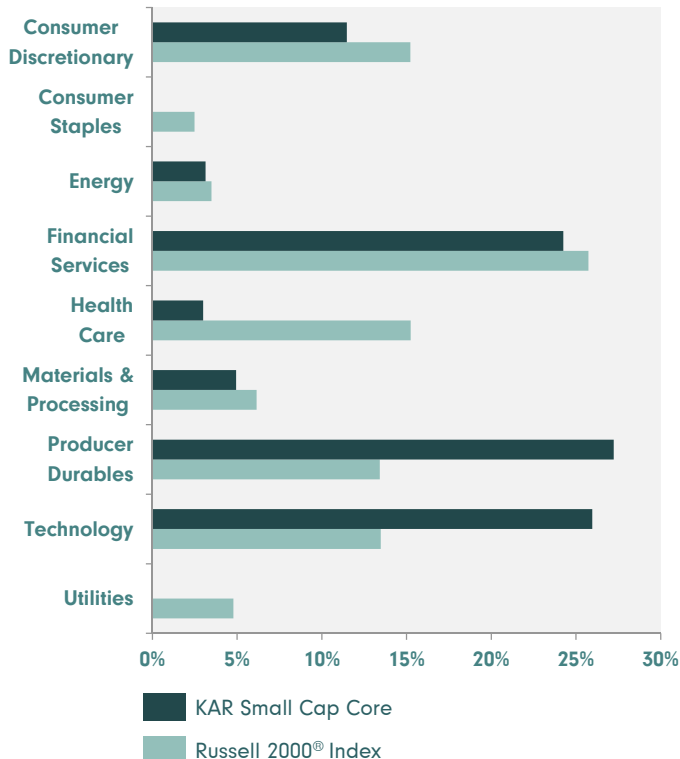
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification

As of December 31, 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 Russell sector classifications. Data is obtained by FactSet Research Systems and is assumed to be reliable.

Portfolio Characteristics

As of December 31, 2018

	KAR Small Cap Core	Russell 2000® Index
Quality		
Return on Equity—Past 5 Years	29.0%	9.8%
Total Debt/EBITDA	1.1 x	4.5 x
Earnings Variability—Past 10 Years	27.0%	76.6%
Growth		
Earnings Per Share Growth—Past 10 Years	14.6%	7.5%
Dividend Per Share Growth—Past 10 Years	12.8%	5.7%
Capital Generation—{ROE x (1-Payout)}	21.7%	7.4%
Value		
P/E Ratio—Trailing 12 Months	22.7 x	27.5 x
Dividend Yield	1.0%	1.6%
Free Cash Flow Yield†	3.8%	1.9%
Market Characteristics		
\$ Weighted Average Market Cap—3-Year Avg.	\$5.3 B	\$2.1 B
Largest Market Cap—3-Year Avg.	\$10.0 B	\$8.7 B
Annualized Standard Deviation—Since Inception‡	14.9%	18.5%

†Free cash flow data is as of September 30, 2018. Prices are as of December 31, 2018. Excludes financials.

‡April 1, 1992

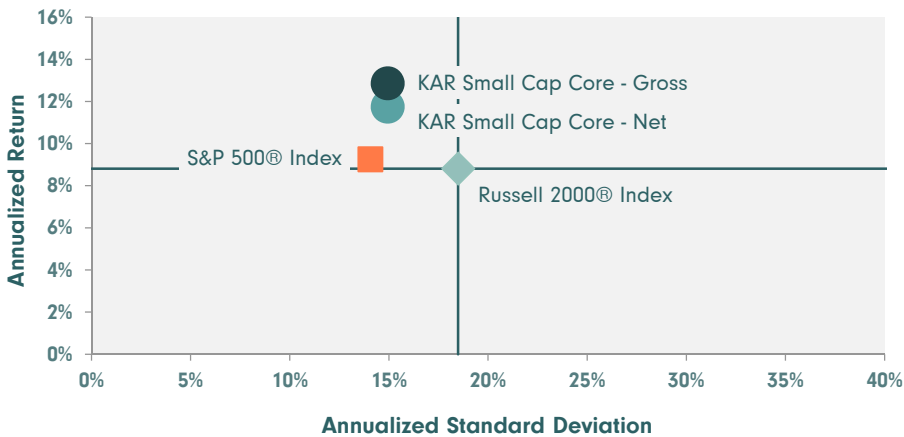
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics.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

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Strong Risk-Adjusted Returns

Inception* to December 31, 2018



Historical Returns

	KAR Small Cap Core (gross)	KAR Small Cap Core (net) [‡]	Russell 2000® Index
Annualized Returns (%)[†]			
As of December 31, 2018			
4 th Quarter	(14.72)	(14.95)	(20.20)
One Year	(0.82)	(1.81)	(11.01)
Three Years	17.29	16.14	7.36
Five Years	12.17	11.06	4.41
Seven Years	14.76	13.62	10.44
Ten Years	16.90	15.75	11.97
Inception*	12.86	11.75	8.81

Annual Returns (%)	KAR Small Cap Core (gross)	KAR Small Cap Core (net) [‡]	Russell 2000® Index
2018	(0.82)	(1.81)	(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.

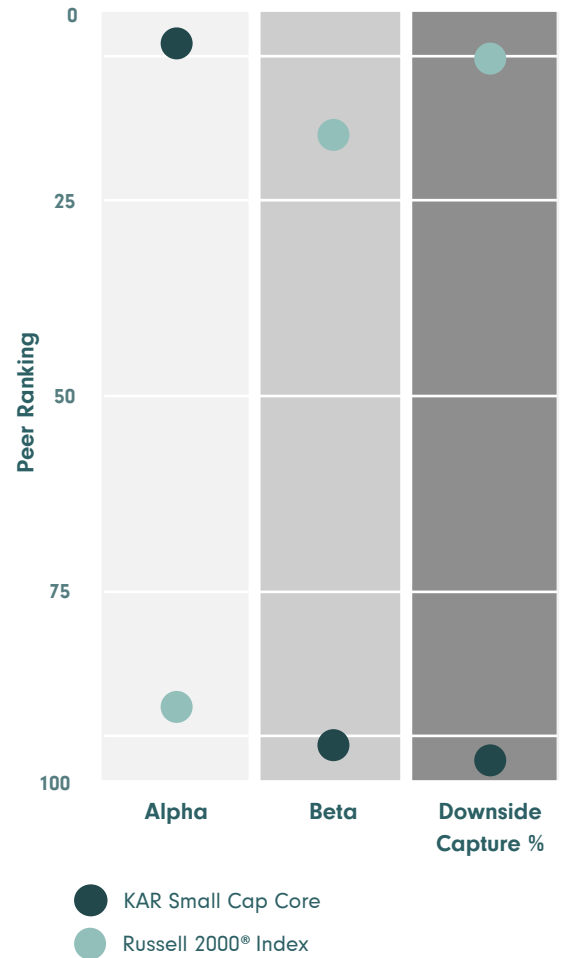
[‡]Net of all fees and expenses. Assumes a 1% annual fee.

[§]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 December 31, 2018



Performance Statistics

Inception* to December 31, 2018

	KAR Small Cap Core	Russell 2000® Index
Annualized Return	12.86	8.81
Annualized Standard Deviation	14.93	18.49
Alpha	5.50	0.00
Beta	0.70	1.00
Sharpe Ratio	0.69	0.34
R-Squared	75.89	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, 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 Small Cap Core 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 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

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
2008	3,445	69	31	(27.64)	(28.40)	(33.79)	0.54
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	0.69

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