

Small Cap Sustainable Growth Portfolio

Fourth Quarter 2018

Portfolio Review

The Small Cap Sustainable Growth portfolio outperformed the Russell 2000 Growth Index during the fourth quarter. Strong stock selection in the technology and health care sectors helped lead gains. Weak stock selection in consumer discretionary and an underweight in utilities detracted from performance.

Stocks that contributed the most to the portfolio during the quarter were MarketAxess Holdings and Autohome. 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. Autohome's shares rose as investors gained confidence that the company's fundamentals can remain healthy despite weak China auto sales.

Stocks that detracted the most from the portfolio were Moelis & Co. and Fox Factory. Moelis shares were hurt as bullish investor sentiment at the beginning of the year (especially after tax reform) has been replaced by fear. Recent market volatility, trade-war fears, rising rates and recession risk are causing investors to take a dimmer view of the M&A environment. So even though Moelis reported double-digit revenue growth in the most recent quarter, the market appears to be implying growth will be negative in 2019 due to the aforementioned fears. While we have no special insight into the volume of deal activity in 2019, if the economy does take a downturn and M&A slows, Moelis's restructuring business would likely take off, which would help offset the hit. The Fox business continues to perform well as it posted revenue growth in each of its reportable segments and expanded its gross margins. In the quarter, the stock price experienced significant price volatility. However, as illustrated by the company's fundamental performance, we believe Fox continues to be supported by a strong brand and seeks to drive ongoing growth through the market segment seeking premium and higher performance products.

Purchases and Sales

We sold out of our position in Emerald Expositions. There were no new purchases.

Emerald Expositions encountered organic revenue shrinkage in the third quarter of 2018, and structural issues are surfacing in regard to the cost to attend relative to the value provided by traditional tradeshows as e-commerce and direct-to-consumer platforms influence distribution models. Our view of the value proposition and competitive stance of tradeshows has deteriorated, and we exited our position.

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: Growth
Index: Russell 2000® Growth
Portfolio Inception: 1998
Portfolio Assets: \$5,552.7 M
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	32
Todd Beiley, 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	8.0
Fox Factory	6.9
Auto Trader Group	6.8
Interactive Brokers Group	5.5
Rightmove	5.1
Total	32.3

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 	20–35 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® Growth 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 Health Care (biotechnology) and also smaller sectors such as Materials & Processing (chemicals, metals and mining), Energy (oil and gas), Financials (real estate and banking), and Utilities where we will have little to no exposure.

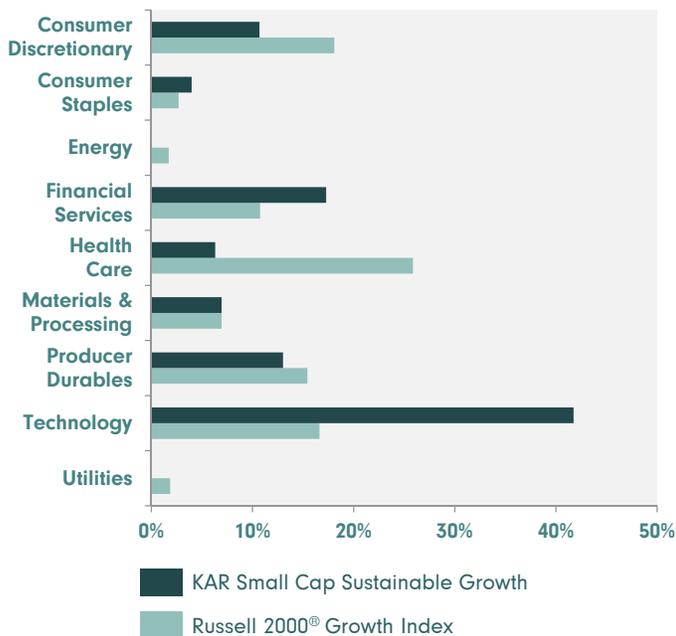
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification[†]

As of December 31, 2018



[†]The large underweight in the KAR portfolio relative to the Russell 2000 Growth Index in the health-care sector is due to the benchmark's large weighting in biotechnology companies and pharmaceutical companies. Within the benchmark's health-care sector, biotechnology represents 12.0% and pharmaceutical represents another 2.7% as of December 31, 2018. These two sub-sectors represent 14.7% of the health-care sector within the benchmark and is outside our investable universe given the difficulty in discerning a competitive advantage, persistent lack of profitability and not meeting our overall investment criteria. Compared to the remaining 11.2% weight in the benchmark, our portfolio has a 6.3% weight in health care. The overweight the technology sector is due to the classification of the diverse business models held within our portfolio by the Russell sector classification system that is used. Many of these businesses within the technology sector are categorized to other non-technology sectors by other index classification systems beginning in the third quarter 2018 (i.e., GICS added a Communication Services sector beginning in 3Q that reduced this overweight as many of the companies currently held moved to this new sector).

Portfolio Characteristics

As of December 31, 2018

	KAR Small Cap Sustainable Growth	Russell 2000® Growth Index
Quality		
Return on Equity—Past 5 Years	23.3%	12.2%
Total Debt/EBITDA	0.6 x	3.4 x
Earnings Variability—Past 10 Years	24.7%	73.7%
Growth		
Earnings Per Share Growth—Past 10 Years	10.5%	8.3%
Capital Generation—{ROE x (1-Payout)}	17.5%	10.1%
Value		
P/E Ratio—Trailing 12 Months	32.7 x	46.1 x
Free Cash Flow Yield [‡]	3.0%	1.4%
Market Characteristics		
\$ Weighted Average Market Cap—3-Year Avg.	\$3.9 B	\$2.3 B
Largest Market Cap—3-Year Avg.	\$11.1 B	\$8.7 B
Annualized Standard Deviation—Since Inception [§]	18.0%	22.8%

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.

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

[§]January 1, 1998

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 Sustainable Growth Portfolio

Fourth Quarter 2018

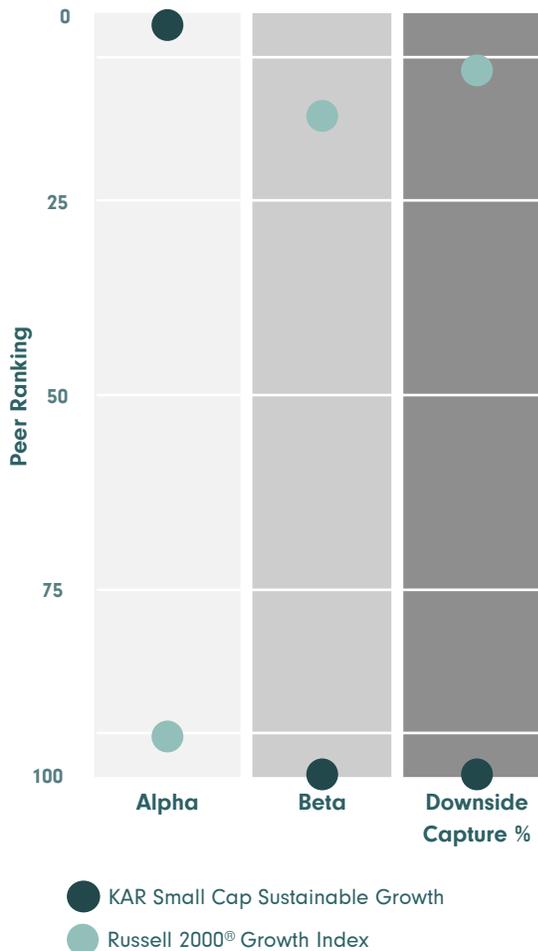
Strong Risk-Adjusted Returns

Inception* to December 31, 2018



Peer Comparison Chart

Ten Years Ending December 31, 2018



Historical Returns

	KAR Small Cap Sustainable Growth (gross)	KAR Small Cap Sustainable Growth (net) [‡]	Russell 2000 [®] Growth Index
--	--	---	--

Annualized Returns (%)[†]

As of December 31, 2018

4 th Quarter	(11.55)	(11.78)	(21.65)
One Year	10.67	9.57	(9.31)
Three Years	24.73	23.51	7.24
Five Years	16.21	15.06	5.13
Seven Years	18.89	17.72	11.25
Ten Years	20.19	19.01	13.52
Inception*	10.69	9.59	5.90

Annual Returns (%)

2018	10.67	9.57	(9.31)
2017	39.03	37.69	22.17
2016	26.11	24.88	11.32
2015	2.57	1.55	(1.38)
2014	6.47	5.40	5.60
2013	39.89	38.53	43.30
2012	13.29	12.16	14.59
2011	17.82	16.69	(2.91)
2010	14.82	13.69	29.09
2009	38.51	37.16	34.47
2008	(33.61)	(34.32)	(38.54)
2007	(0.59)	(1.59)	7.05
2006	15.80	14.66	13.35
2005	1.88	0.85	4.15
2004	12.82	11.68	14.31
2003	38.44	37.10	48.54
2002	(23.82)	(24.60)	(30.26)
2001	0.48	(0.49)	(9.23)
2000	6.28	5.22	(22.43)
1999	31.19	29.92	43.09
1998	3.33	2.28	1.23

Performance Statistics

Inception* to December 31, 2018

	KAR Small Cap Sustainable Growth	Russell 2000 [®] Growth Index
Annualized Return	10.69	5.90
Annualized Standard Deviation	17.95	22.84
Alpha	5.72	0.00
Beta	0.67	1.00
Sharpe Ratio	0.49	0.17
R-Squared	72.41	100.00

*January 1, 1998

[†]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.

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 Growth Universe includes all managers categorized in the small cap growth 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.

Small Cap Sustainable Growth Portfolio

Fourth Quarter 2018

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 Sustainable Growth 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 Small Cap Sustainable Growth Portfolios. Small Cap Sustainable Growth Portfolios are invested in equity securities with market capitalizations in line with the Russell 2000® 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 2000® Growth Index. The Russell 2000® Growth Index is a market capitalization-weighted index of growth-oriented stocks 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 January 1998. 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 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. 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.

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		19.74	24.65
2012		15.54	21.01
2013		12.22	17.52
2014		12.35	14.02
2015		14.08	15.16
2016		14.85	16.91
2017		12.69	14.80

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2000® Growth Index Annual Return (%)	Internal Dispersion
2008	3,445	12	14	(33.61)	(34.32)	(38.54)	1.04
2009	4,010	11	11	38.51	37.16	34.47	0.94
2010	4,729	12	12	14.82	13.69	29.09	0.22
2011	5,232	180	14	17.82	16.69	(2.91)	0.51
2012	6,545	155	17	13.29	12.16	14.59	0.42
2013	7,841	232	23	39.89	38.53	43.30	1.42
2014	7,989	205	20	6.47	5.40	5.60	0.40
2015	8,095	244	17	2.57	1.55	(1.38)	0.40
2016	9,989	614	19	26.11	24.88	11.32	0.54
2017	14,609	2038	40	39.03	37.69	22.17	1.40

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