

## Small-Mid Cap Core Portfolio

### Second Quarter 2019



### Portfolio Review

The Small-Mid Cap Core portfolio easily topped the Russell 2500 Index during the second quarter. Performance primarily was driven by strong stock selection across sectors, with technology and materials & processing leading the way. While still producing positive results, an underweight in utilities and consumer staples contributed the least to performance during the quarter.

The biggest contributors to performance during the quarter were ScottsMiracle-Gro and MSCI.

- ScottsMiracle-Gro's hydroponic segment's cannabis grower customers were adversely affected in 2018 by California's cannabis licensing law, which caused many growers to exit the market during that year. We took advantage of this stock weakness to add to our position. In the first half of 2019, hydroponic sales ceased their decline and returned to double-digit year-over-year organic growth in the second quarter. This gave market participants increased confidence that the grower disruption had been mostly worked through causing the stock to rebound strongly. We view the franchise strength of ScottsMiracle-Gro's lawn and garden brands, including its hydroponics segment, as intact and remain owners of the business.
- As the preeminent provider of indices for international investing strategies, MSCI remains a beneficiary of the increased investment in non-U.S. markets and the shift from active to passive strategies. This was evident over the past 12 months, as both revenue and profits grew by double-digit percentages.

The biggest detractors from the portfolio were nVent Electric and Winmark.

- nVent Electric is a recent spin-off from Pentair. We initiated a position in Q2 post spin from Pentair. We believe that the brand and the vast distribution network allow the company to have leading market share in almost all of its leading categories. Near-term, the uncertainty surrounding trade tariff issues and a lack of support for this industry has caused some near-term stock price decline.
- The stock market trading volume of Winmark equity is relatively low and, on March 28, 2019, Winmark completed a tender offer for 150,000 Winmark shares and this possibly influenced the performance of the share price within the second quarter. The fundamental performance of Winmark's business continues to be satisfactory.

### Purchases and Sales

During the quarter, WABCO Holdings was sold and we purchased a new position in nVent Electric.

- nVent Electric is a recent spin-off from Pentair. nVent engages in the provision of electrical connection and protection solutions. Electrical connection and protection products are very critical in terms of safety and therefore quality brands are very important. Some of nVent's brands date back 50 to 100 years and belie the difficulty new brands can have to garner quality reputation and market share. Because most of the products that nVent produces are a small portion of total costs for customers, there is little incentive for distributors and ultimately customers to try out new brands and risks the costs of failure. With leading shares and margins, we believe the company has further opportunities to take share from smaller competitors and leverage its cost structure placing it in an even better position to succeed.
- 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 in nVent Electric.

### 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-Mid Cap  
**Sub-Style:** Core  
**Index:** Russell 2500™  
**Portfolio Inception:** 1992  
**Portfolio Assets:** \$3,617.3 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>Julie Kutasov</b> Portfolio Manager + Senior Research Analyst	18
<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>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 (%)
MSCI	5.9
Aspen Technology	5.6
Teradyne	5.1
Cooper Companies	5.1
Scotts Miracle-Gro	5.1
<b>Total</b>	<b>26.8</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 2500™ 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.

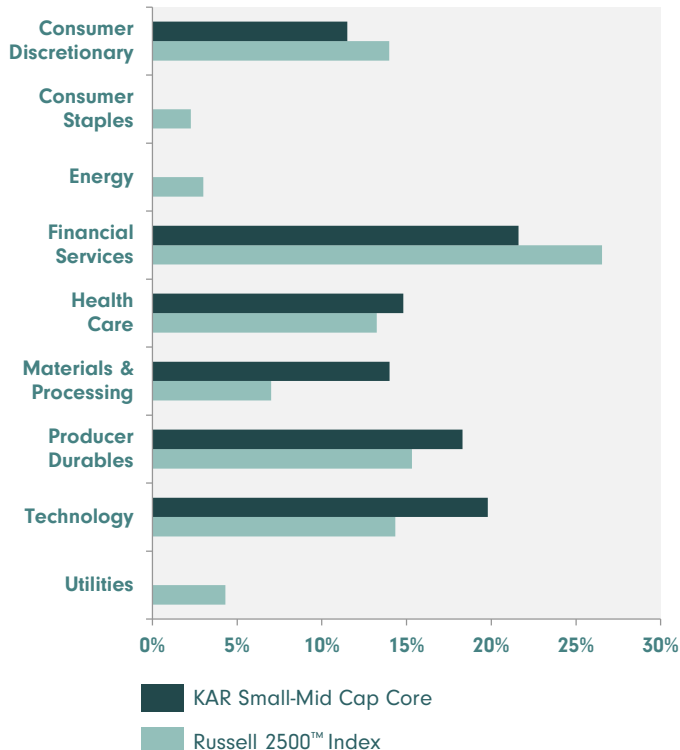
Higher Quality

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 Small-Mid Cap Core	Russell 2500™ Index
<b>Quality</b>		
Return on Equity—Past 5 Years	21.0%	12.0%
Total Debt/EBITDA	2.3 x	4.6 x
Earnings Variability—Past 10 Years	41.6%	63.4%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	19.2%	11.9%
Earnings Per Share Growth—Past 10 Years	17.0%	10.1%
Capital Generation—{ROE x (1-Payout)}	17.0%	8.8%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	25.4 x	28.4 x
Dividend Yield	0.8%	1.6%
Free Cash Flow Yield†	3.8%	2.5%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$7.9 B	\$4.8 B
Largest Market Cap—3-Year Avg.	\$17.5 B	\$19.2 B
Annualized Standard Deviation—Since Inception*	14.4%	17.2%

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

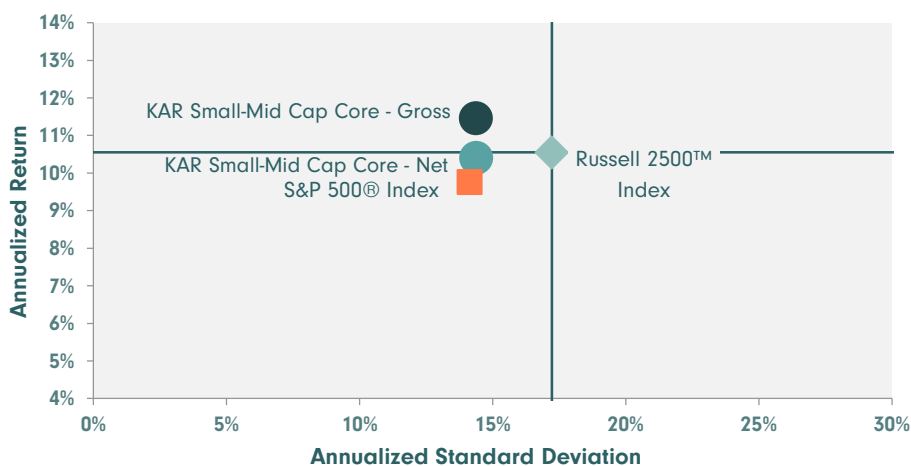
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics.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

# Small-Mid Cap Core Portfolio

Second Quarter 2019

## Strong Risk-Adjusted Returns

Inception\* to June 30, 2019



## Historical Returns

	KAR Small-Mid Cap Core (gross)	KAR Small-Mid Cap Core (net) <sup>†</sup>	Russell 2500™ Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of June 30, 2019			
2 <sup>nd</sup> Quarter	9.76	9.52	2.96
Year to Date	26.73	26.19	19.25
One Year	14.33	13.31	1.77
Three Years	16.49	15.45	12.34
Five Years	13.84	12.83	7.66
Seven Years	15.52	14.50	12.51
Ten Years	16.29	15.26	14.44
Inception*	11.46	10.40	10.55

Annual Returns (%)	KAR Small-Mid Cap Core (gross)	KAR Small-Mid Cap Core (net) <sup>†</sup>	Russell 2500™ Index
2018	(4.41)	(5.27)	(10.00)
2017	19.77	18.71	16.81
2016	17.30	16.26	17.59
2015	6.16	5.23	(2.90)
2014	9.74	8.74	7.07
2013	31.61	30.47	36.80
2012	8.82	7.90	17.88
2011	8.45	7.56	(2.51)
2010	20.46	19.27	26.71
2009	30.58	29.31	34.39
2008	(30.20)	(30.92)	(36.79)
2007	0.35	(0.66)	1.38
2006	13.83	12.71	16.17
2005	3.13	2.09	8.11
2004	14.19	13.03	18.29
2003	24.81	23.60	45.51
2002	(16.98)	(17.83)	(17.80)
2001	5.06	4.03	1.22
2000	23.80	22.58	4.27
1999	6.09	5.06	24.14
1998	21.39	20.20	0.38
1997	20.82	19.63	24.36
1996	27.00	25.74	19.03
1995	17.47	16.30	31.70
1994	2.75	1.74	(1.05)
1993	20.00	18.84	16.55
1992 <sup>§</sup>	9.65	8.85	11.36

\*April 1, 1992

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

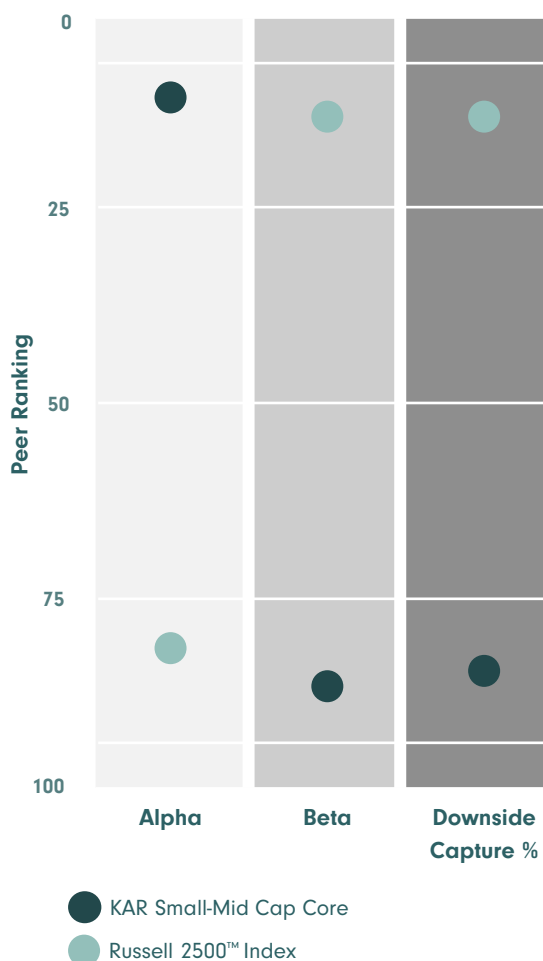
<sup>‡</sup>Net of all fees and expenses. Assumes a 0.90% annual fee.

<sup>§</sup>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-Mid Cap Core Universe includes all managers categorized in the small-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.

## Peer Comparison Chart

Ten Years Ending June 30, 2019



## Performance Statistics

Inception\* to June 30, 2019

	KAR Small-Mid Cap Core	Russell 2500™ Index
Annualized Return	<b>11.46</b>	10.55
Annualized Standard Deviation	<b>14.37</b>	17.22
Alpha	<b>2.83</b>	0.00
Beta	<b>0.73</b>	1.00
Sharpe Ratio	<b>0.62</b>	0.47
R-Squared	<b>77.10</b>	100.00

## Small-Mid Cap Core Portfolio

Second Quarter 2019

### 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-Mid 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 fully discretionary institutional and pooled Small-Mid Cap Core Portfolios. Small-Mid Cap Core Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2500™ 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 2500™ Index. The Russell 2500™ Index is a

market capitalization-weighted index of the 2,500 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 July 2000. 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. From July 1, 2000 to December 31, 2010, only non-taxable Small-Mid Cap Core Portfolios are included in the composite. As of January 1, 2011, the composite was redefined to include both taxable and tax-exempt accounts. This composite contained < 1% non-fee-paying portfolios as of each annual period from 2013-2018.

The standard management fee schedule currently in effect is as follows: 0.90% for the first \$25 million; 0.80% on the next \$25 million; 0.75% on the next \$50 million; 0.60% on the balance. Prior to January 1, 2013, the standard management fee schedule in effect for this strategy was as follows: 0.85% for the first \$25 million; 0.70% on the next \$25 million; 0.60% 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. Prior to January 1, 2011, the highest tier assumed of the standard management fee schedule for this product was 1.00%.

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		18.53	23.73
2012		15.19	19.24
2013		12.17	15.85
2014		10.27	11.84
2015		12.23	12.59
2016		12.63	13.86
2017		11.15	12.31
2018		13.31	14.30

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2500™ Index Annual Return (%)	Internal Dispersion
2009	4,010	22	12	30.58	29.31	34.39	0.47
2010	4,729	25	9	20.46	19.27	26.71	0.13
2011	5,232	37	25	8.45	7.56	(2.51)	0.13
2012	6,545	40	26	8.82	7.90	17.88	0.12
2013	7,841	59	27	31.61	30.47	36.80	0.24
2014	7,989	21	20	9.74	8.74	7.07	0.26
2015	8,095	21	18	6.16	5.23	(2.90)	0.23
2016	9,989	34	39	17.30	16.26	17.59	0.13
2017	14,609	137	83	19.77	18.71	16.81	0.31
2018	17,840	111	92	(4.41)	(5.27)	(10.00)	0.19

The Russell 2500™ Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.