

## Small-Mid Cap Quality Value Portfolio

Second Quarter 2019



### Portfolio Review

The Small-Mid Cap Quality Value portfolio outperformed the Russell 2500 Value Index during the second quarter. Performance was driven by solid stock selection in the materials and processing and financial services sectors, while stock selection in consumer discretionary and producer durables detracted from performance.

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

- 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.
- RBC Bearings' shares rose sharply following the company's reports of better-than-expected operating results driven by impressive profitability expansion (due to both improved pricing and manufacturing efficiencies) and solid annual outlook. Importantly, RBC remains a solid free-cash-flow generator, and the company's balance sheet is pristine following faster-than-anticipated debt repayment.

The biggest detractors from the portfolio were Core Laboratories and Cheesecake Factory.

- The Cheesecake Factory was impacted by increased wage inflation which affected the earnings of the business. However, the business continued to benefit from pricing growth at The Cheesecake Factory branded restaurant concepts.
- Core Labs' business results remain suppressed as languishing oil prices have dampened international offshore drilling activity. Additionally, U.S. onshore drilling activity, which has been an area of strength for Core, has recently stalled.

### Purchases and Sales

There were no new purchases or complete sales from the portfolio during the quarter.

### 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:** Value  
**Index:** Russell 2500™ Value  
**Portfolio Inception:** 2008  
**Portfolio Assets:** \$232.2 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	33
<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>Jon Christensen, CFA</b> Senior Research Analyst	24
<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 (%)
Scotts Miracle-Gro	6.0
Broadridge Financial Solutions	5.8
TransUnion	5.7
MSCI	5.4
W. R. Berkley	5.4
<b>Total</b>	<b>28.3</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

<b>Development of High-Quality Universe</b>	<b>Proprietary Fundamental Research</b>	<b>Portfolio Construction</b>	<b>Sell Discipline</b>
<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™ Value 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 also smaller sectors such as Health Care (biotechnology) Materials & Processing (chemicals, metals and mining), Energy (oil and gas), and Utilities where we will have little to no exposure.

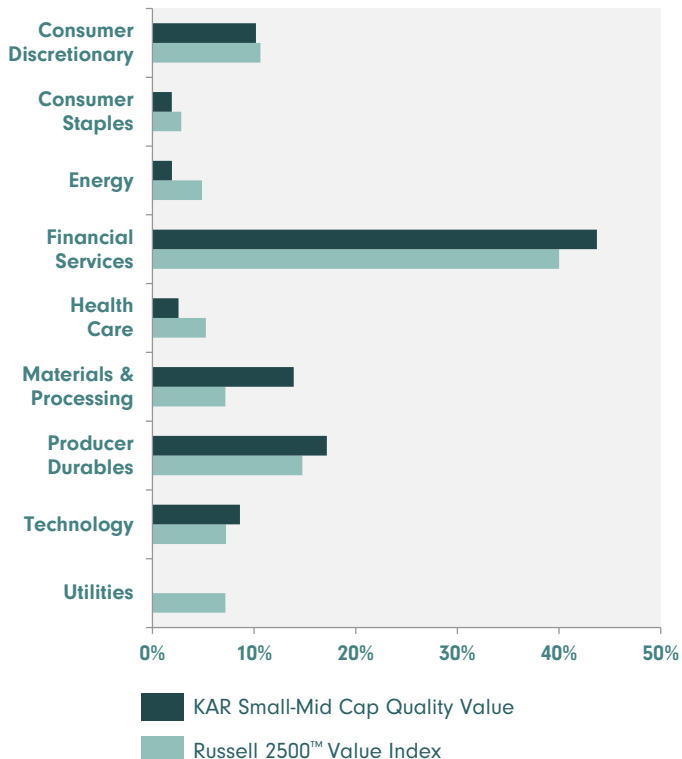
Higher Quality

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 Quality Value	Russell 2500™ Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	23.3%	9.9%
Total Debt/EBITDA	2.9 x	5.4 x
Earnings Variability—Past 10 Years	31.9%	63.2%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	12.3%	8.1%
Earnings Per Share Growth—Past 10 Years	13.9%	8.3%
Dividend Per Share Growth—Past 5 Years	11.9%	8.0%
Dividend Per Share Growth—Past 10 Years	13.4%	7.8%
Capital Generation—{ROE x (1-Payout)}	14.0%	6.3%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	23.4 x	21.6 x
Dividend Yield	1.6%	2.3%
Free Cash Flow Yield†	4.7%	3.0%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$6.7 B	\$4.5 B
Largest Market Cap—3-Year Avg.	\$18.2 B	\$14.9 B
Annualized Standard Deviation—Since Inception*	16.5%	18.6%

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

\*January 1, 2008

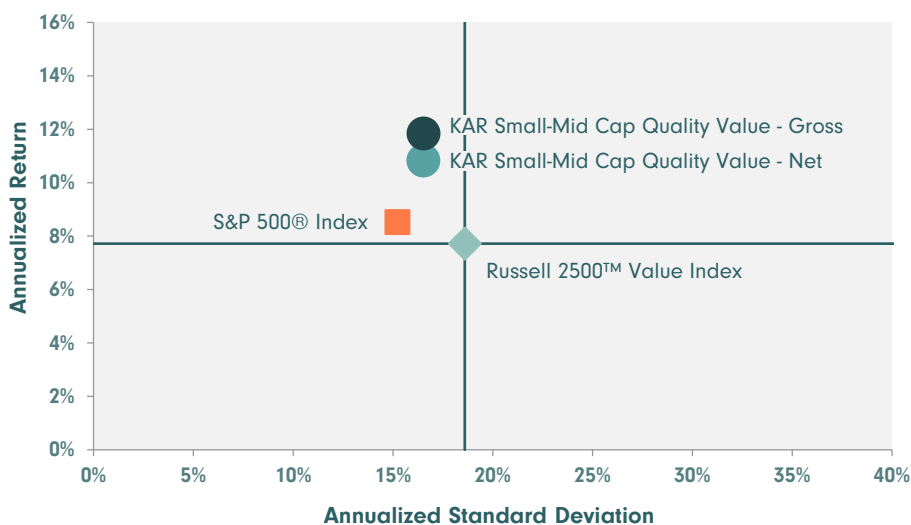
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics.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

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Second Quarter 2019

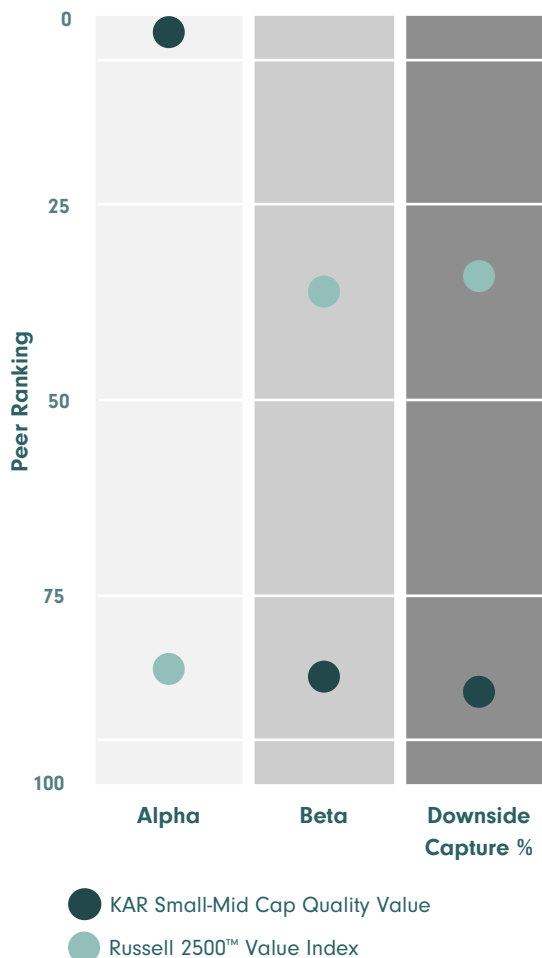
## Strong Risk-Adjusted Returns

Inception\* to June 30, 2019



## Peer Comparison Chart

Inception\* to June 30, 2019



## Historical Returns

	KAR Small-Mid Cap Quality Value (gross)	KAR Small-Mid Cap Quality Value (net) <sup>†</sup>	Russell 2500™ Value Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of June 30, 2019			
2 <sup>nd</sup> Quarter	6.98	6.74	1.89
Year to Date	22.17	21.63	15.26
One Year	5.88	4.93	(1.92)
Three Years	11.62	10.63	8.98
Five Years	9.75	8.77	5.55
Seven Years	13.18	12.17	11.00
Ten Years	16.08	15.05	13.28
Inception*	11.84	10.83	7.72

	KAR Small-Mid Cap Quality Value (gross)	KAR Small-Mid Cap Quality Value (net) <sup>†</sup>	Russell 2500™ Value Index
<b>Annual Returns (%)</b>			
2018	(11.97)	(12.77)	(12.36)
2017	18.43	17.38	10.36
2016	19.69	18.63	25.20
2015	(0.58)	(1.47)	(5.49)
2014	8.88	7.89	7.11
2013	36.30	35.12	33.32
2012	11.01	10.07	19.21
2011	7.40	6.52	(3.36)
2010	25.83	24.61	24.82
2009	32.51	31.22	27.68
2008	(18.99)	(19.82)	(31.99)

## Performance Statistics

Inception\* to June 30, 2019

	KAR Small-Mid Cap Quality Value	Russell 2500™ Value Index
Annualized Return	11.84	7.72
Annualized Standard Deviation	16.53	18.60
Alpha	4.86	0.00
Beta	0.84	1.00
Sharpe Ratio	0.68	0.39
R-Squared	89.98	100.00

\*January 1, 2008

<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.

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 Value Universe includes all managers categorized in the small-mid cap value 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.

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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-Mid Cap Quality Value Composite has been examined for the period from January 1, 2012 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 is defined as all fully discretionary institutional and pooled Small-Mid Cap Quality Value Portfolios (including cash) under management for at least one full quarter. Small-Mid Cap Quality Value Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2500™ Value

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™ Value Index. The Russell 2500™ Value Index is a market capitalization-weighted index of value-oriented stocks 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 June 2008. 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. Non-fee-paying portfolios represent < 1% of composite assets as of each annual period end from 2013-2018.

The standard fee schedule 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. Actual management fees charged may vary depending on applicable fee schedules and portfolio size, among other things. Additional information may be found in Part

IIA 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 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	20.07	24.57
2012	13.97	18.67
2013	12.01	15.29
2014	10.65	11.41
2015	12.25	12.19
2016	12.24	13.36
2017	10.88	11.98
2018	12.93	13.77

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2500™ Value Index Annual Return (%)	Internal Dispersion
2009	4,010	< 1	< 5	32.51	31.22	27.68	N/A
2010	4,729	< 1	< 5	25.83	24.61	24.82	N/A
2011	5,232	1	< 5	7.40	6.52	(3.36)	N/A
2012	6,545	85	< 5	11.01	10.07	19.21	N/A
2013	7,841	138	6	36.30	35.12	33.32	0.13
2014	7,989	140	12	8.88	7.89	7.11	0.09
2015	8,095	371	17	(0.58)	(1.47)	(5.49)	0.05
2016	9,989	395	22	19.69	18.63	25.20	0.24
2017	14,609	427	49	18.43	17.38	10.36	0.45
2018	17,840	162	36	(11.97)	(12.77)	(12.36)	0.40

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