

## Small-Mid Cap Quality Value Portfolio

Third Quarter 2018



### Portfolio Review

The Small-Mid Cap Quality Value portfolio outperformed the Russell 2500 Value Index during the third quarter. Strong stock selection in the financial services and consumer staples sectors helped drive performance. Gains were partially offset by weak stock selection in consumer discretionary and energy.

The highest contributors to performance this quarter were HFF and Broadridge Financial Solutions.

- HFF saw its share price recover strongly in the third quarter after reporting better-than-expected revenue growth. As HFF is a transaction-based business, quarterly results can be lumpy. As such, we focus more on HFF's ability to train, hire and retain high-quality transaction professionals, which drive long-term revenue and profit growth. With HFF's culture intact and headcount continuing to increase, we believe the company will continue to gain share over the long-term.
- There has been growing concern among investors that changes underway, or being considered, by the Securities Exchange Commission could lower the fees Broadridge receives for distributing communications to mutual fund investors. On the most recent earnings call, Broadridge management helped allay those concerns and provided better-than-expected 2019 guidance, both of which helped push the share price higher. Broadridge continues to benefit from its standing as the low-cost provider and the high switching costs for its clients.

The biggest detractors from performance were Whirlpool Corporation and American Software.

- Whirlpool has been negatively impacted by inflation in raw materials. As a result, Whirlpool has implemented price increases for its products.
- American Software has seen stronger-than-expected demand for its cloud offering. This revenue is recognized ratably, while expenses are recognized immediately. This has had an adverse impact on the financials and masks the underlying health of the business. The company is also spending on R&D to innovate around its core suite of products, in addition to spending to integrate its recent Halo acquisition. Despite the accounting headwinds, cash flow remains healthy and the competitive position appears intact.

### Purchases and Sales

There were no new purchases this quarter. We sold our position in Skyworks Solutions to help fund additions to existing positions in the portfolio that we believe can generate higher long-term returns.

### Outlook

A flat Treasury yield curve continues to concern investors, the U.S. and China are locked in an ongoing trade spat, and troubles in emerging markets persist. But uncertainty and volatility in markets are to be expected. While we do pay attention to such factors causing concern, we also remain focused on the economic and business fundamentals. The U.S. appears to be one of the pillars of strength in the global economy today, with third-quarter GDP growth projected to be strong and various sectors continuing to expand. We are committed to investing in high-quality businesses that have a sustainable competitive edge. We believe this is the best long-term protection we can provide in today's environment of heightened market and geopolitical uncertainty.

### Portfolio Highlights

**Style:** Small-Mid Cap  
**Sub-Style:** Value  
**Index:** Russell 2500™ Value  
**Portfolio Inception:** 2008  
**Portfolio Assets:** \$252.1 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	32
<b>Julie Kutasov</b> Portfolio Manager + Senior Research Analyst	17
<b>Craig Stone</b> Portfolio Manager + Senior Research Analyst	29
<b>Todd Bailey, CFA</b> Senior Research Analyst	19
<b>Julie Biel, CFA</b> Senior Research Analyst	10
<b>Jon Christensen, CFA</b> Senior Research Analyst	23
<b>Chris Wright, CFA</b> Senior Research Analyst	8
<b>Sean Dixon</b> Research Analyst	9
<b>Adam Xiao, CFA</b> Research Analyst	3

### Top Five Holdings

As of September 30, 2018

Company	Percent of equity (%)
Broadridge Financial Solutions	5.9
TransUnion	5.5
Lamar Advertising	5.4
Cheesecake Factory	5.0
W.R. Berkley	4.4
<b>Total</b>	<b>26.2</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™ 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.

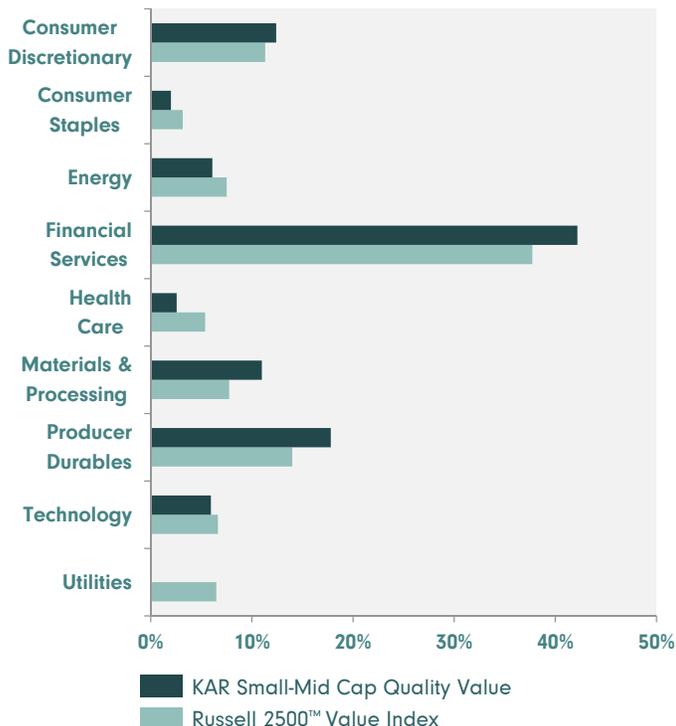
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of September 30, 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 September 30, 2018

	KAR Small-Mid Cap Quality Value	Russell 2500™ Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	23.8%	9.7%
Total Debt/EBITDA	2.2 x	5.1 x
Earnings Variability—Past 10 Years	24.3%	74.3%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	11.3%	7.1%
Earnings Per Share Growth—Past 10 Years	10.4%	6.8%
Dividend Per Share Growth—Past 5 Years	12.7%	8.1%
Dividend Per Share Growth—Past 10 Years	14.1%	7.3%
Capital Generation—{ROE x (1-Payout)}	14.5%	6.4%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	26.4 x	22.6 x
Dividend Yield	1.6%	2.1%
Free Cash Flow Yield†	3.9%	2.8%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$6.0 B	\$4.3 B
Largest Market Cap—3-Year Avg.	\$19.2 B	\$13.8 B
Annualized Standard Deviation—Since Inception‡	15.8%	18.1%

†Free cash flow data is as of June 30, 2018. Prices are as of September 30, 2018. 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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Third Quarter 2018

## Strong Risk-Adjusted Returns

Inception\* to September 30, 2018



## Peer Comparison Chart

Inception\* to September 30, 2018



## Historical Returns

	KAR Small-Mid Cap Quality Value (gross)	KAR Small-Mid Cap Quality Value (net) <sup>†</sup>	Russell 2500 <sup>™</sup> Value Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of September 30, 2018			
3 <sup>rd</sup> Quarter	5.57	5.34	2.67
Year to Date	7.23	6.51	5.75
One Year	14.59	13.58	10.24
Three Years	16.62	15.60	14.51
Five Years	12.25	11.25	9.99
Seven Years	15.67	14.65	15.33
Ten Years	13.91	12.88	10.53
Inception*	12.69	11.67	8.74

	KAR Small-Mid Cap Quality Value	Russell 2500 <sup>™</sup> Value Index
<b>Annual Returns (%)</b>		
2017	18.43	10.36
2016	19.69	25.20
2015	(0.58)	(5.49)
2014	8.88	7.11
2013	36.30	33.32
2012	11.01	19.21
2011	7.40	(3.36)
2010	25.83	24.82
2009	32.51	27.68
2008	(18.99)	(31.99)

## Performance Statistics

Inception\* to September 30, 2018

	KAR Small-Mid Cap Quality Value	Russell 2500 <sup>™</sup> Value Index
Annualized Return	12.69	8.74
Annualized Standard Deviation	15.83	18.10
Alpha	4.97	0.00
Beta	0.83	1.00
Sharpe Ratio	0.78	0.46
R-Squared	89.24	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, 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-Mid Cap Quality Value Composite has been examined for the period from January 1, 2012 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 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 2013-2017.

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

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
2008	3,445	< 1	< 5	(18.99)	(19.82)	(31.99)	N/A
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

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