

Small-Mid Cap Quality Value Portfolio

Fourth Quarter 2018



Portfolio Review

The Small-Mid Cap Quality Value portfolio underperformed the Russell 2500 Value Index during the fourth quarter. Weak stock selection in financial services and an underweight in utilities negatively affected performance, while strong stock selection in producer durables and materials & processing helped trim losses.

The highest contributors to performance this quarter were WD-40 Company and Cass Information Systems.

- WD-40 shares performed strongly following the company's report of solid fiscal fourth-quarter 2018 operating results with strong sales growth and relatively stable profitability despite significant inflation in raw materials cost.
- Cass' recent quarterly results benefited from the uptick in domestic trucking activity, in which both the cost and the number of shipments increased. Cass is paid both on the number and size of the invoices it processes, so the current environment remains favorable. In addition, as interest rates rise, the company will earn additional income on the funds held within its banking subsidiary. Given the favorable operating environment and Cass' entrenched position as the largest trucking invoice processor, we remain owners of the business.

The biggest detractors from performance were Broadridge Financial Solutions and Core Laboratories.

- Broadridge shares had been strong for most of 2018 and were a top-three contributor to the portfolio's third-quarter performance. The stock declined in the fourth quarter, however, due to lingering concerns that changes being considered by the SEC could lower the fees the company receives for distributing communications to mutual fund investors and that headwinds from recent market volatility could impact the business. Broadridge continues to benefit from being the low-cost provider in its industry with high switching costs for its clients, so we think any potential changes from the SEC can be managed through. Recent market volatility may have some limited short-term impact on financial results, but we do not think it represents a structural deterioration in the company's earnings power.
- The decline in oil prices has muted international and offshore drilling activity, which has hurt Core Lab's current results and near-term outlook.

Purchases and Sales

We sold our positions in Whirlpool and Dril-Quip. There were no new purchases this quarter.

Our investment in Whirlpool has been disappointing for a couple of reasons. First, while the company continues to maintain good margins in its North America business, the company has not been able to gain the same scale leverage from its European and Chinese acquisitions. Second, there was no way to anticipate with our initial investment that there would have been a steel tariff in place that would hamper the company's overall cost structure. While the company has been able to increase price, this could overtime push consumer toward lower end products due to escalating prices. We sold Whirlpool to add to another one of our investments that we believe will offer us higher return potential for the long term.

Shares of Dril-Quip have underperformed since we took our initial position in the company in June 2015. We continue to believe that Dril-Quip, both as a "best of breed" mission-critical equipment supplier and as a low-cost manufacturer, is better protected from the challenging operating environment in the offshore drilling marketplace. But we do expect weakness in the offshore area to linger, driven by low commodity prices and increased competition from lower-cost onshore drilling alternatives. This is combined with a changing competitive landscape where more integrated offerings from larger-size peers have an ability to create pricing pressure, further impairing a recovery. With the above considerations in mind, we exited our small position in the company.

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-Mid Cap
Sub-Style: Value
Index: Russell 2500™ Value
Portfolio Inception: 2008
Portfolio Assets: \$194.1 M
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	32
Julie Kutasov Portfolio Manager + Senior Research Analyst	17
Craig Stone Portfolio Manager + Senior Research Analyst	29
Todd Bailey, CFA Senior Research Analyst	19
Julie Biel, CFA Senior Research Analyst	10
Jon Christensen, CFA Senior Research Analyst	23
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 (%)
TransUnion	5.5
Lamar Advertising	5.4
Broadridge Financial Solutions	5.4
W. R. Berkley	5.0
RBC Bearings	4.7
Total	25.9

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 	25–35 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 2500™ Value 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 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.

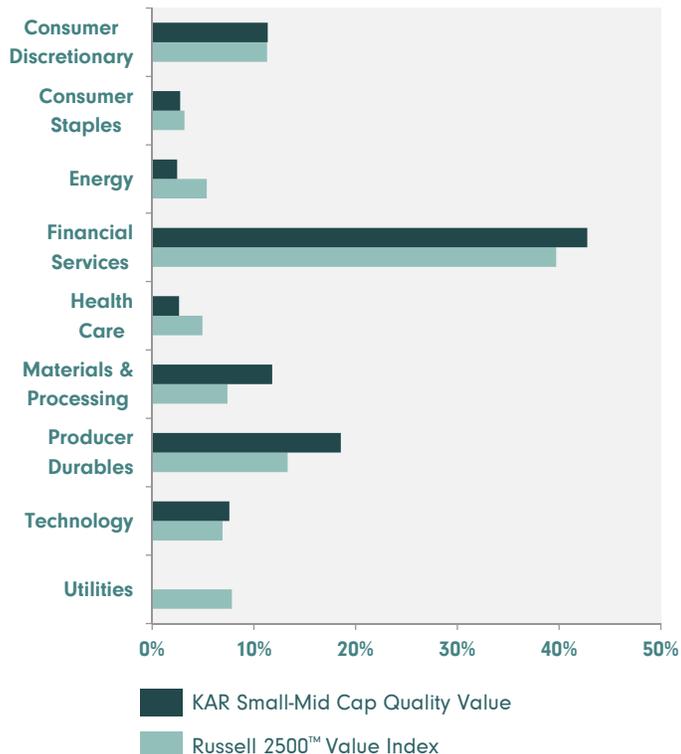
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification

As of 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-Mid Cap Quality Value	Russell 2500™ Value Index
Quality		
Return on Equity—Past 5 Years	25.4%	10.0%
Total Debt/EBITDA	2.1 x	4.8 x
Earnings Variability—Past 10 Years	21.9%	69.7%
Growth		
Earnings Per Share Growth—Past 5 Years	11.9%	7.5%
Earnings Per Share Growth—Past 10 Years	12.6%	7.2%
Dividend Per Share Growth—Past 5 Years	11.1%	7.4%
Dividend Per Share Growth—Past 10 Years	13.7%	7.3%
Capital Generation—{ROE x (1-Payout)}	15.0%	6.3%
Value		
P/E Ratio—Trailing 12 Months	19.6 x	17.5 x
Dividend Yield	2.0%	2.6%
Free Cash Flow Yield†	5.2%	3.6%
Market Characteristics		
\$ Weighted Average Market Cap—3-Year Avg.	\$6.3 B	\$4.3 B
Largest Market Cap—3-Year Avg.	\$19.1 B	\$14.4 B
Annualized Standard Deviation—Since Inception*	16.4%	18.5%

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

Small-Mid Cap Quality Value Portfolio

Fourth Quarter 2018

Strong Risk-Adjusted Returns

Inception* to December 31, 2018



Peer Comparison Chart

Inception* to December 31, 2018



Historical Returns

	KAR Small-Mid Cap Quality Value (gross)	KAR Small-Mid Cap Quality Value (net) [†]	Russell 2500™ Value Index
Annualized Returns (%)[‡]			
As of December 31, 2018			
4 th Quarter	(17.90)	(18.10)	(17.12)
One Year	(11.98)	(12.77)	(12.36)
Three Years	7.66	6.70	6.59
Five Years	6.20	5.25	4.16
Seven Years	10.75	9.77	10.00
Ten Years	13.85	12.83	11.62
Inception*	10.38	9.38	6.70

	KAR Small-Mid Cap Quality Value (gross)	KAR Small-Mid Cap Quality Value (net) [†]	Russell 2500™ Value Index
Annual Returns (%)			
2018	(11.98)	(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 December 31, 2018

	KAR Small-Mid Cap Quality Value	Russell 2500™ Value Index
Annualized Return	10.38	6.70
Annualized Standard Deviation	16.39	18.46
Alpha	4.35	0.00
Beta	0.84	1.00
Sharpe Ratio	0.61	0.34
R-Squared	89.75	100.00

*January 1, 2008

[†]All periods less than one year are total returns and are not annualized. Returns are preliminary.

[‡]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.

Small-Mid Cap Quality Value 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-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.