

## Emerging Markets Small Cap Portfolio

Fourth Quarter 2019

### Market Review

Emerging market equities rallied strongly during the fourth quarter, outperforming most global equity benchmarks, and ended the year up 18.42%. Despite slower economic growth in many emerging market countries, emerging market equities ended the year on a positive note driven by the easing of trade tension between the U.S. and China and as central banks around the world were increasingly accommodative, creating hopes for stabilization in the global economy.

Brazil was the best performing market in the fourth quarter and the year. With the recently elected president, Brazil's economy showed positive growth and legislators approved a major overhaul of the country's pension laws, while the central bank continued to lower rates. Chile was one of the worst performing markets both for the quarter and the year, affected by the eruption of protests.

### Portfolio Review

The Emerging Markets Small Cap portfolio underperformed the MSCI Emerging Markets Small Cap Index during the quarter. It is not surprising to see the portfolio lagging the index at a time when the market rallied by almost 10% in a short period of time. For the full year, the portfolio outperformed its benchmark. Stock selection was the primary driver of outperformance as we had several companies generate outsized gains during the year with strong developments in business fundamentals.

The top contributors to performance during the quarter were Sea Limited and 58.com. Sea is a Southeast Asian e-commerce/online video gaming business. The company reported strong third quarter results. Both the e-commerce and the gaming businesses grew by more than investors had expected and management raised full year guidance for both businesses. Despite a slowing economic backdrop in China, 58.com's businesses reported solid results with total revenue and profits growing strongly. Traffic to the company's platforms continued to grow robustly despite soft industry trends in both real estate and jobs segments. Other positive contributors include Headhunter Group, Sarana Menara Nusantara and Auto Trader.

The bottom contributors to performance during the quarter were Union Auction Public and Baozun. Union Auction is the largest operator of used and salvaged car auctions in Thailand. Shares fell after the company reported slower third quarter earnings growth compared to the first half of the year. The decline in new car sales in Thailand also accelerated due to stricter lending standards by financial institutions. Despite these near-term headwinds, Union Auction continues to generate impressive earnings growth and its competitive position remains intact. With an attractive dividend yield and long-term growth prospects, we added to our position in the quarter. Baozun is the largest provider of e-commerce solutions to domestic and global consumer companies in China. The company helps brands to sell their products on major e-commerce platforms like Tmall and JD.com. We liked Baozun's leadership position and high switching costs its customers would have to incur if they decided to switch a provider. However, we under-estimated the capital requirements of the business. After Baozun reported in the third quarter, it became clear that margins will stay under pressure longer than we expected. And, more importantly, we lost confidence in the company's profitability level and returns over the long term. We sold our position during the quarter. Other bottom contributors included Ace Hardware, CCU and Humanica Public.

### Purchases and Sales

New Purchases	Complete Sales
Anhui Gujing Distillery	Baozun
Haw Par	Pico Far East Holdings
SaraminHR	Snieszka
	Union de Cervecerias Peruanas Backus y Johnston

### Portfolio Highlights

**Style:** Small Cap  
**Index:** MSCI<sup>®</sup> Emerging Markets Small Cap Index  
**Portfolio Turnover:** 25%-35%  
**Number of Holdings:** 30-60

### Investment Philosophy

- We believe that purchasing high-quality businesses with competitive protections at attractive valuations will achieve excess returns over a complete market cycle.

### Investment Objectives

- To achieve a return meaningfully above that of the MSCI<sup>®</sup> Emerging Markets Small Cap Index
- To achieve this return objective with a portfolio that exhibits lower overall risk characteristics

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	33
<b>Hyung Kim</b> Portfolio Manager + Senior Research Analyst	15
<b>Craig Thrasher, CFA</b> Portfolio Manager + Senior Research Analyst	15
<b>Ekaterina V. Advena</b> Research Analyst	10
<b>David Forward</b> Research Analyst	5

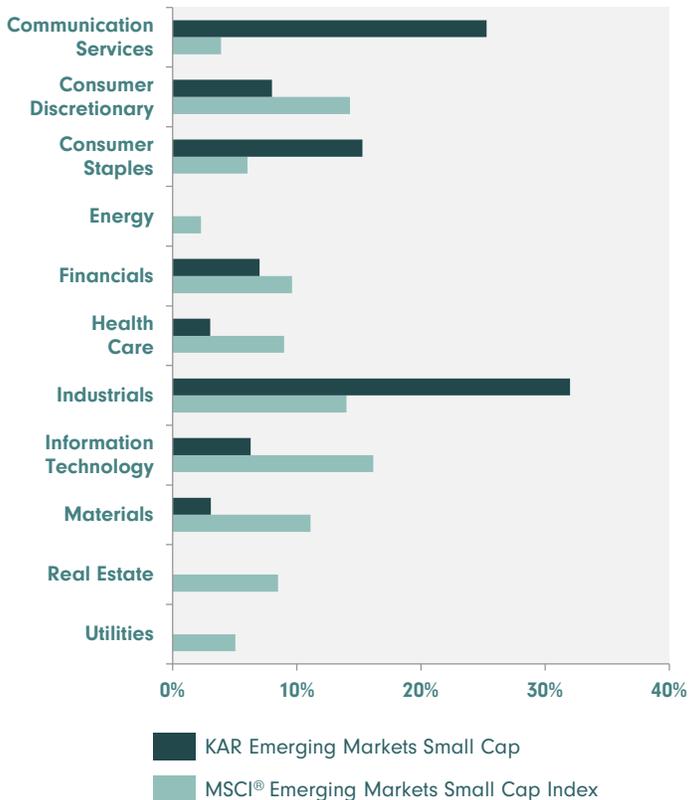
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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. **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>400 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>100–120 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>30–60 Stocks</b> <b>Position Weights</b> <ul style="list-style-type: none"> <li>Maximum initial position size is 5% (at cost)</li> <li>Maximum position size is 10% (at market)</li> </ul> <b>Sector and Geographic Tolerances</b> <ul style="list-style-type: none"> <li>Seek broad diversification, but no sector constraints</li> </ul> <b>Holding Period</b> <ul style="list-style-type: none"> <li>Typically 3-to-5 years</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; review by CIO triggered if over 10%</li> </ul>	<b>Extended Valuation</b> <b>Portfolio Upgrade</b> <b>Acquisition Activity</b> <b>Negative Company or Industry Changes</b>
Higher Quality   Stronger, More Consistent Growth   Better Value			

## Sector Diversification

As of December 31, 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 GICS sector classifications. Data is obtained by FactSet Research Systems and is assumed to be reliable.

## Portfolio Characteristics

As of December 31, 2019

	KAR Emerging Markets Small Cap	MSCI® Emerging Markets Small Cap Index
<b>Quality</b>		
Return on Equity—Past 5 Years	19.4%	11.7%
Total Debt/EBITDA	0.6 x	5.3 x
Interest Expense Coverage	0.8 x	2.5 x
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	15.5%	9.6%
Earnings Per Share Growth—Past 10 Years	10.4%	8.7%
Dividend Per Share Growth—Past 5 Years	13.2%	10.9%
Dividend Per Share Growth—Past 10 Years	10.3%	9.0%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	23.9 x	17.0 x
Dividend Yield	2.2%	2.7%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap	\$3.2 B	\$1.6 B
Largest Market Cap	\$18.6 B	\$4.1 B

Data is obtained from 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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Fourth Quarter 2019

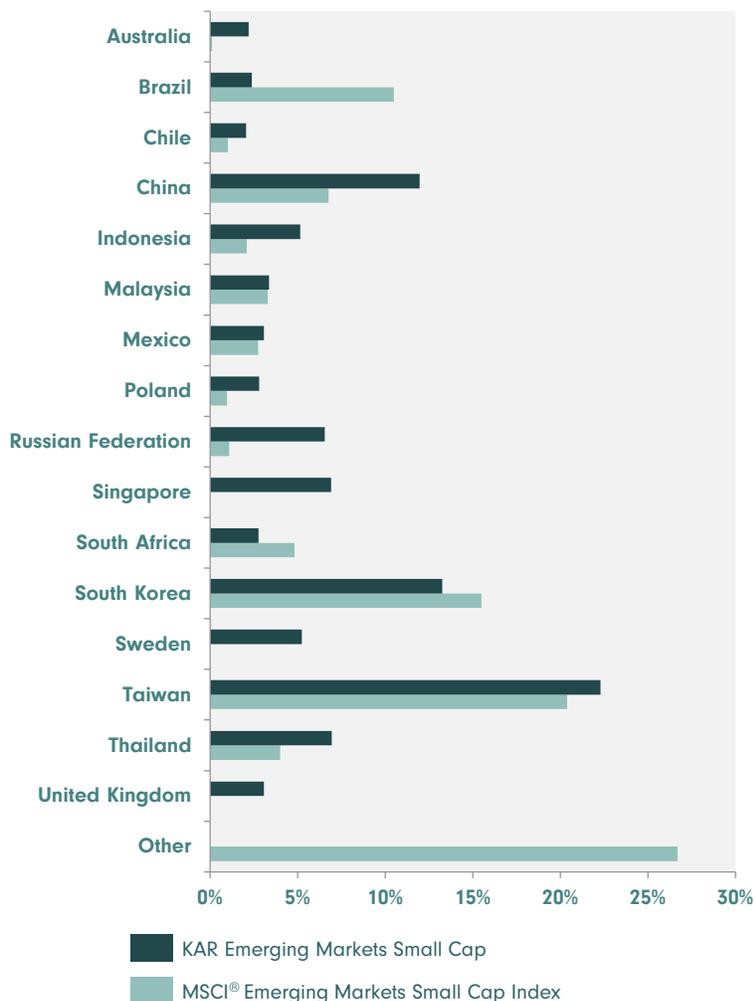
## Top 10 Holdings

As of December 31, 2019

Company	Country	Percent of equity (%)
Headhunter Group	Russian Federation	6.5
Vostok New Ventures	Sweden	5.2
Taisun International	Taiwan	4.6
Sea	Singapore	3.9
NICE Information Service	South Korea	3.8
ADDCN Technology	Taiwan	3.7
58.com	China	3.6
Heineken Malaysia	Malaysia	3.4
Voltronic Power Technology	Taiwan	3.3
Sarana Menara Nusantara	Indonesia	3.1
<b>Total</b>		<b>41.2</b>

## Country Exposure

As of December 31, 2019



## Historical Returns

	KAR Emerging Markets Small Cap (gross)	KAR Emerging Markets Small Cap (net) <sup>†</sup>	MSCI <sup>®</sup> Emerging Markets Small Cap Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of December 31, 2019			
4 <sup>th</sup> Quarter	7.16	6.89	9.52
One Year	20.17	18.99	11.50
Three Years	15.47	14.33	6.70
Five Years	8.90	7.83	2.97
Inception*	7.75	6.69	2.64
<b>Annual Returns (%)</b>			
2019	20.17	18.99	11.50
2018	(3.82)	(4.78)	(18.59)
2017	33.20	31.90	33.84
2016	18.45	17.28	2.28
2015	(16.02)	(16.84)	(6.85)
2014	2.20	1.16	1.01

\*January 1, 2014

<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 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. 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. The verification reports are available upon request.

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. Verification does not ensure the accuracy of any specific composite presentation.

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 Emerging Markets Small Cap Portfolios. Emerging Markets Small Cap Portfolios are invested in equity securities

with market capitalizations in line with the MSCI® Emerging Markets Small Cap 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 MSCI® Emerging Markets Small Cap Index (net). The MSCI® Emerging Markets Small Cap Index is a market capitalization-weighted index of small-capitalization stocks from countries defined as Emerging Markets in the MSCI® Global Investable Market Indices Universe, excluding U.S. companies. The index is calculated on a total-return basis with dividends reinvested, net of withholding taxes. Benchmark returns are not covered by the report of the independent verifiers. The composite was created in January 2014. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

The standard management fee schedule currently in effect is as follows: 1.00% for the first \$100 million; 0.90% 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 gross of

withholding taxes and 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, which measures the variability of the composite (using gross returns) and the benchmark for the 36-month period, is not presented for periods prior to 2016 because 36 monthly composite returns are not available. 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
2016	15.00	14.54
2017	14.07	14.57
2018	12.06	14.21

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	MSCI® Emerging Markets Small Cap Index (net) Annual Return (%)	Internal Dispersion
2014	7,989	5	< 5	2.20	1.16	1.01	N/A
2015	8,095	4	< 5	(16.02)	(16.84)	(6.85)	N/A
2016	9,989	5	< 5	18.45	17.28	2.28	N/A
2017	14,609	14	< 5	33.20	31.90	33.84	N/A
2018	17,840	70	< 5	(3.82)	(4.78)	(18.59)	N/A

The MSCI® Emerging Markets Small Cap Index is a trademark/service mark of MSCI®. MSCI® is a trademark of MSCI Inc..