Kayne Anderson Rudnick
Investment Management

Large Cap Sustainable Growth Portfolio

Fourth Quarter 2019

Portfolio Review

The Large Cap Sustainable Growth portfolio outperformed the Russell 1000 Growth Index during the quarter. Performance was driven by strong stock selection in the information technology and communication services sectors. Negative stock selection and an underweight in the health care sector and negative stock selection and an overweight in the materials sector detracted from performance during the quarter.

The biggest contributors to performance were Bill.com and Alibaba. Bill.com is one of the leading cloud-based accounts receivable and accounts payable invoice software and payment processing solutions serving the small-to-medium business segment. B2B payments currently account for an estimated $127 trillion in payment flows, over five times the volume of the retail payments market. Despite its size, the B2B payments market has been slow to digitize and remains predominantly paper-based (over 70% of B2B payments volume is still fulfilled by paper check). When a business switches to Bill.com, relevant labor costs are reduced by 50% to 75% on average and customers are paid 2x to 3x faster. This has enabled Bill.com to grow its current customer base and annualized payment volume. Bill.com's solid customer proposition, first-mover advantage, strategic focus on the small-to-medium business segment, and strong distribution partnerships should provide a competitive moat as it tackles this sizeable and substantially underpenetrated market. Bill.com IPO'd in mid-December. While the underlying fundamentals of Alibaba remain robust, the shares have been whipped around by ebbs and flows of optimism about the overall Chinese economy. Among things the company can control, notable positives in the most recent quarter include continued robust growth and profitability of its marketplaces, highly successful penetration of lower tier cities and excellent cross-sell of its multitude of services. Other top contributors included NVIDIA, Facebook and Paycom Software.

The biggest detractors from the portfolio were McDonald's and Home Depot. McDonald's is toward the end of a bold plan to re-energize the brand. Among the initiatives management hopes to contribute to sustainable ongoing growth include delivery, elevated digital experience, dynamic pricing, location reimaging and additional franchising. It has not been all smooth sailing as it makes these changes. Expenses have outpaced expectations and it has coincided with traffic headwinds as competitors like Burger King (Impossible Whopper) and Popeye's (Chicken Sandwich) have released popular competing products. Finally, Steve Easterbrook, the CEO who spearheaded many of these changes over the last four years was fired after it was discovered he violated company policy by having a relationship with a subordinate. In regards to Home Depot, home improvement spending has always been strongly correlated with home values which, in turn, are negatively correlated with interest rates. The three Fed Funds rate cuts in 2019 were a tailwind for home improvement spending in 2019, but fourth quarter comparables missed expectations on a number of one-time, non-consensus items (commodity deflation, lumber deflation, calendar shift) and the company said that unwinding some legacy IT systems was proving more complex than anticipated. Other bottom contributors included bluebird bio, Workday and Ecolab.

Outlook

On the surface, there appears to be less concerns about the 2020 outlook than there was at the beginning of 2019. The stock market made numerous new highs in December reflecting this outlook. It is no heroic assumption to predict returns in 2020 will not be as good as 2019 despite a reduction in uncertainty. We believe corporate profits should improve in 2020 to the 5% to 10% growth level despite a slowing in overall GDP probably to the 1.0% to 1.5% range. Modest economic growth coupled with better growth overseas could lead to continued improving corporate profitability. The Federal Reserve will probably hold rates steady if this kind of environment unfolds. Election rhetoric will create some volatility in 2020, but it is premature to handicap any outcomes.

Purchases and Sales

New Purchases	Complete Sales
Bill.com	Bluebird Bio

Portfolio Highlights

Style: Large Cap
Sub-Style: Growth
Index: Russell 1000® Growth
Portfolio Assets: $1,351.8 M
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer + Portfolio Manager	33
Chris Armbruster, CFA Portfolio Manager + Senior Research Analyst	14
Richard Sherry, CFA Senior Research Analyst	21
Noran Eid Research Analyst	6

Top Five Holdings

As of December 31, 2019

Company	Percent of equity (%)
Amazon.com	7.2
Facebook	5.8
Alibaba Group	5.8
Visa	5.0
Bill.com	4.5
Total	**28.3**

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

200 Stocks

Quantitative Methods
- Investment conferences
- Meetings with companies
- Industry reviews
- Research on existing portfolio holdings
- Third-party research

Quantitative Screens
- High return on capital over a full economic cycle
- Earnings surprise
- Long and resilient earnings history
- High return on net operating assets
- Minimal debt

Proprietary Fundamental Research

60–70 Stocks

Qualitative Analysis
- Evaluate sustainability of business model and assess management's ability to direct capital where it can create further control of its market

Financial Analysis
- Evaluate basis for superior profitability, long-term growth potential, and ability to allocate capital appropriately

Valuation Analysis
- Determine the current and potential value of the business

Portfolio Construction

25–50 Stocks

Position Weights
- Maximum initial position size is 5% (at cost)
- Maximum position size is 10% (at market)

Sector Tolerances
- Seek broad diversification, but no sector constraints

Holding Period
- Typically 3-to-5 years, but is often longer
- Portfolio turnover is typically 25% to 35%

Cash Levels
- Typically will not exceed 10% once a portfolio is fully invested; review by CIO triggered if over 10%

Sell Discipline

Negative Company or Industry Changes

Portfolio Upgrade

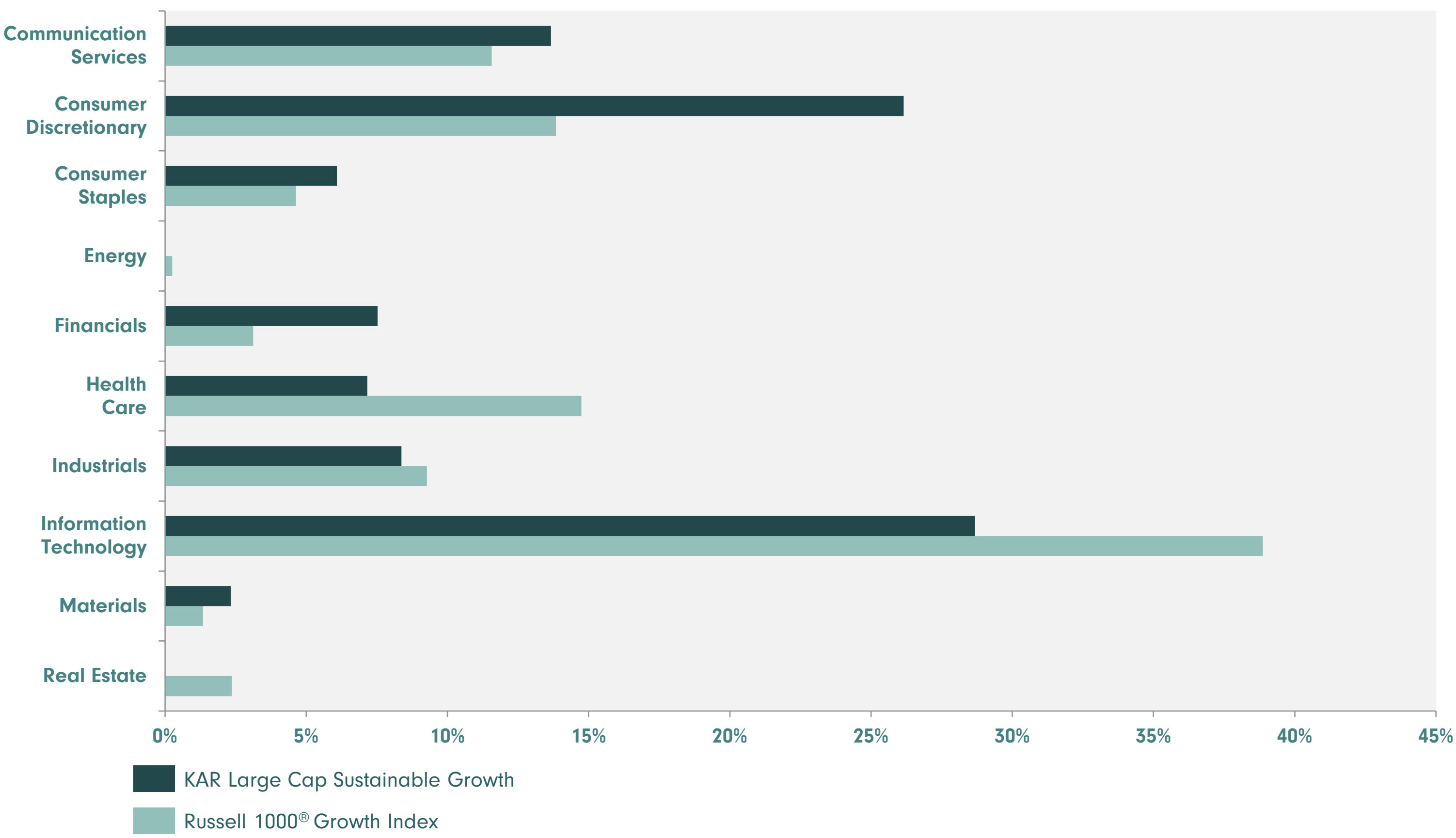
Acquisition Activity

Extended Valuation

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.

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Portfolio Characteristics

As of December 31, 2019

	KAR Large Cap Sustainable Growth	Russell 1000® Growth Index
Quality		
Return on Equity—Past 5 Years	**21.6%**	24.9%
Total Debt/EBITDA	**1.9 x**	2.1 x
Earnings Variability—Past 10 Years	**38.1%**	40.0%
Growth		
Earnings Per Share Growth—Past 5 Years	**22.1%**	15.6%
Earnings Per Share Growth—Past 10 Years	**13.8%**	12.2%
Capital Generation—{ROE x (1-Payout)}	**17.3%**	17.1%
Value		
P/E Ratio—Trailing 12 Months	**41.4 x**	30.7 x
Free Cash Flow Yield*	**2.4%**	3.7%
Market Characteristics		
$ Weighted Average Market Cap	**$214.8 B**	$394.6 B
Largest Market Cap	**$909.8 B**	$1304.8 B

Performance Statistics

Inception† to December 31, 2019

	KAR Large Cap Sustainable Growth	Russell 1000® Growth Index
Annualized Return	**16.29**	16.71
Annualized Standard Deviation	**13.87**	11.79
Beta	**1.12**	1.00
Sharpe Ratio	**1.13**	1.37
R-Squared	**90.96**	100.00

Historical Returns

	KAR Large Cap Sustainable Growth (gross)	**KAR Large Cap Sustainable Growth** (net)§	**Russell 1000® Growth Index**
Annualized Returns (%)† As of December 31, 2019			
4th Quarter	12.72	12.53	10.62
One Year	41.05	40.09	36.39
Three Years	21.49	20.66	20.49
Five Years	14.63	13.85	14.63
Seven Years	16.51	15.17	16.92
Inception‡	16.29	15.49	16.71
Annual Returns (%)			
2019	41.05	40.09	36.39
2018	(6.43)	(7.09)	(1.51)
2017	35.87	34.95	30.21
2016	(0.03)	(0.73)	7.08
2015	10.43	9.68	5.67
2014	12.66	11.86	13.05
2013	30.66	29.78	33.48
2012	14.76	13.96	15.26

**Free cash flow data is as of September 30, 2019. Prices are as of December 31, 2019. Excludes financials.*

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

‡January 1, 2012

§Net of all fees and expenses. Assumes a 0.70% 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 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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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 Large Cap Sustainable Growth Portfolios. Large Cap Sustainable Growth Portfolios are invested in equity securities with market capitalizations consistent with the Russell 1000® Growth 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 1000® Growth Index. The Russell 1000® Growth Index is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises of 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 January 2012. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

This composite contained 8% non-fee-paying portfolios as of December 31, 2013, 0.1% non-fee-paying portfolios as of December 31, 2014 and December 31, 2015 and <0.1% non-fee-paying portfolios as of each annual period from 2016-2018.

The standard management fee schedule currently in effect is as follows: 0.70% for the first $10 million; 0.55% on the next $25 million; 0.45% on the next $50 million; 0.35% 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 management fees and 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 2014 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
2014	10.39	9.73
2015	12.33	10.85
2016	13.24	11.31
2017	12.52	10.69
2018	14.27	12.30

Year	Total Firm Assets ($ millions)	Total Composite Assets ($ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 1000® Growth Index Annual Return (%)	Internal Dispersion
2012	6,545	583	24	14.76	13.96	15.26	0.03
2013	7,841	674	25	30.66	29.78	33.48	0.08
2014	7,989	681	25	12.66	11.86	13.05	0.14
2015	8,095	687	31	10.43	9.68	5.67	0.35
2016	9,989	928	57	(0.03)	(0.73)	7.08	0.06
2017	14,609	1,175	142	35.87	34.95	30.21	1.50
2018	17,840	991	217	(6.43)	(7.09)	(1.51)	0.18