

## Small-Mid Cap Core Portfolio

Fourth Quarter 2019



### Portfolio Review

The Small-Mid Cap Core portfolio outperformed the Russell 2500 Index during the fourth quarter. Performance primarily was driven by strong stock selection in the consumer discretionary and technology sectors. Poor stock selection in health care and materials & processing detracted from performance.

The biggest contributors to performance during the quarter were MSCI and Thor. MSCI's operational results in the recent quarter end showed revenue and profit growing 10% and 13%, respectively. These better-than-expected results pushed shares higher in the most recent period after the stock lagged in the prior quarter. In 2019, Thor completed the acquisition of Erwin Hymer, a market leading manufacturer of recreational vehicles in Europe. The acquisition of Erwin Hymer is likely to yield multiple benefits, including geographic diversification of the business. Also, because Thor is more of an assembler as opposed to a true manufacturer, the profitability of the company in the current industry downturn continues to produce cash-flow that has been utilized to pay down debt incurred from the Erwin Hymer acquisition. Other top contributors included Teradyne, DocuSign and SiteOne Landscape Supply.

The biggest detractors from the portfolio were Interactive Brokers Group and RBC Bearings. At the beginning of October, a competing large electronic broker Charles Schwab lowered its commissions for U.S. equity trades to zero following Interactive Brokers creating a zero-commission Lite account offering in late September. As a result, TD-Ameritrade, Fidelity and E\*TRADE followed suit by cutting U.S. equity trade commissions to zero. Market participants reacted negatively to the commission cuts and sold off public electronic broker stocks as a group. RBC Bearings' shares lagged (following strong performance in Q3 2019) driven primarily by Boeing 737 MAX aircraft production delays. Nonetheless, the company's core Aerospace & Defense segment continues to deliver solid revenue growth and profitability and the company's overall balance sheet is pristine following faster-than-anticipated debt repayment. Other detractors included W.R. Berkley, Aspen Technology and Rollins.

### Purchases and Sales

During the quarter, we purchased Fair Issac. There were no complete sales from the portfolio.

Fair Isaac offers decision management solutions that help businesses automate and improve their decision-making process and results. The company's analytic-based solutions address customer engagement, including customer acquisition, customer onboarding, customer servicing and management, and customer protection. Fair Isaac (FICO) is the de-facto industry standard for running credit scores, and runs approximately 90% of all credit scores, primarily amongst financial institutions.

### 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.

### Portfolio Highlights

**Style:** Small-Mid Cap  
**Sub-Style:** Core  
**Index:** Russell 2500™  
**Portfolio Inception:** 1992  
**Portfolio Assets:** \$4,553.9 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	33
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	24
<b>Julie Kutasov</b> Portfolio Manager + Senior Research Analyst	18
<b>Craig Stone</b> Portfolio Manager + Senior Research Analyst	30
<b>Todd Beiley, CFA</b> Senior Research Analyst	20
<b>Julie Biel, CFA</b> Senior Research Analyst	11
<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 December 31, 2019

Company	Percent of equity (%)
MSCI	5.7
Scotts Miracle-Gro	4.9
CDW	4.9
Teradyne	4.7
DocuSign	4.5
<b>Total</b>	<b>24.7</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>Maximum initial position size is 5% (at cost)</li> <li>Maximum position size is 10% (at market)</li> </ul> <b>Sector Tolerances</b> <ul style="list-style-type: none"> <li>Seek broad diversification, but no sector constraints</li> </ul> <b>Non-U.S. Holdings</b> <ul style="list-style-type: none"> <li>Up to 20%</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; 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>

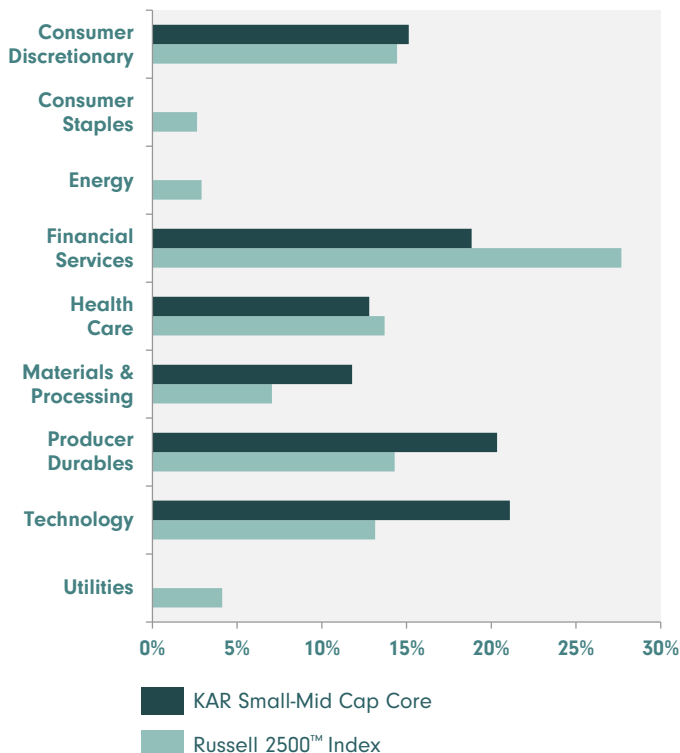
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of December 31, 2019



## Portfolio Characteristics

As of December 31, 2019

	KAR Small-Mid Cap Core	Russell 2500™ Index
<b>Quality</b>		
Return on Equity—Past 5 Years	22.1%	11.3%
Total Debt/EBITDA	1.9 x	4.8 x
Earnings Variability—Past 10 Years	37.9%	59.8%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	20.1%	11.4%
Earnings Per Share Growth—Past 10 Years	15.5%	10.1%
Capital Generation—{ROE x (1-Payout)}	17.9%	8.2%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	28.7 x	33.0 x
Dividend Yield	0.7%	1.6%
Free Cash Flow Yield†	3.5%	2.7%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$8.3 B	\$5.0 B
Largest Market Cap—3-Year Avg.	\$17.4 B	\$19.7 B
Annualized Standard Deviation—Since Inception‡	14.3%	17.1%

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

‡April 1, 1992

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.**

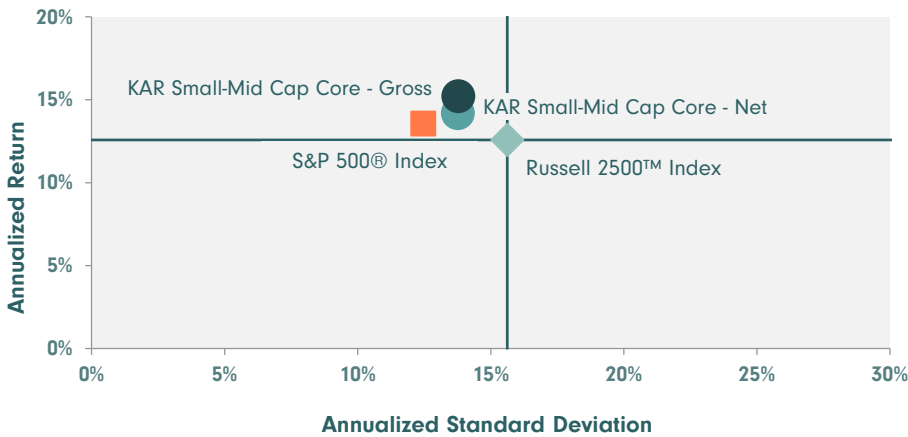
A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. Holdings and weightings are based on a representative portfolio. Individual Investors' holdings may differ slightly. The sector information represented above is based on Russell sector classifications. Data is obtained by FactSet Research Systems and is assumed to be reliable.

# Small-Mid Cap Core Portfolio

Fourth Quarter 2019

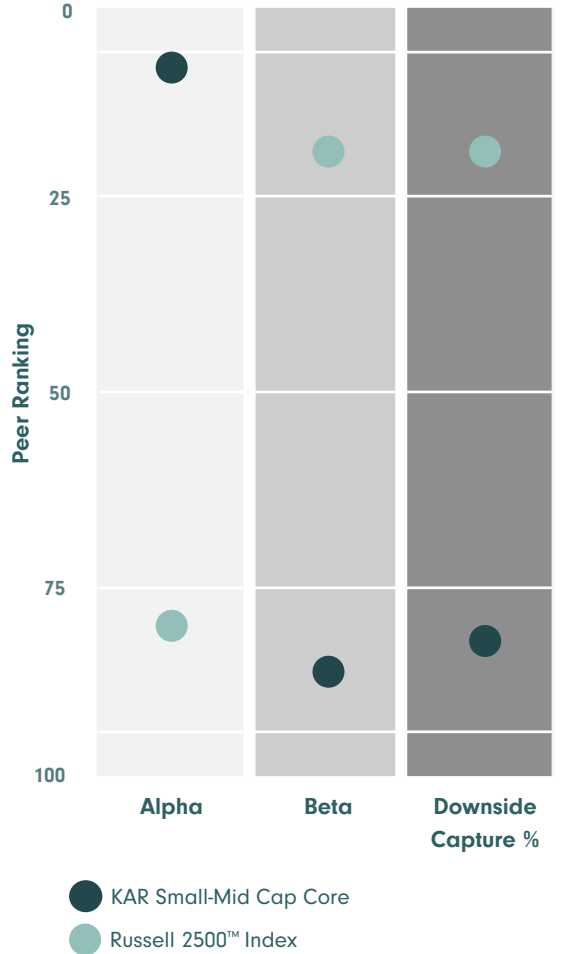
## Strong Risk-Adjusted Returns

Ten Years Ending December 31, 2019



## Peer Comparison Chart

Ten Years Ending December 31, 2019



## Historical Returns

	KAR Small-Mid Cap Core (gross)	KAR Small-Mid Cap Core (net) <sup>†</sup>	Russell 2500™ Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of December 31, 2019			
4 <sup>th</sup> Quarter	9.33	9.09	8.54
One Year	40.80	39.57	27.77
Three Years	17.25	16.21	10.33
Five Years	14.95	13.94	8.93
Seven Years	16.42	15.39	12.26
Ten Years	15.21	14.19	12.58
Inception*	11.67	10.60	10.63
<b>Annual Returns (%)</b>			
2019	40.80	39.57	27.77
2018	(4.41)	(5.27)	(10.00)
2017	19.77	18.71	16.81
2016	17.30	16.26	17.59
2015	6.16	5.23	(2.90)
2014	9.74	8.74	7.07
2013	31.61	30.47	36.80
2012	8.82	7.90	17.88
2011	8.45	7.56	(2.51)
2010	20.46	19.27	26.71
2009	30.58	29.31	34.39
2008	(30.20)	(30.92)	(36.79)
2007	0.35	(0.66)	1.38
2006	13.83	12.71	16.17
2005	3.13	2.09	8.11
2004	14.19	13.03	18.29
2003	24.81	23.60	45.51
2002	(16.98)	(17.83)	(17.80)
2001	5.06	4.03	1.22
2000	23.80	22.58	4.27
1999	6.09	5.06	24.14
1998	21.39	20.20	0.38
1997	20.82	19.63	24.36
1996	27.00	25.74	19.03
1995	17.47	16.30	31.70
1994	2.75	1.74	(1.05)
1993	20.00	18.84	16.55
1992 <sup>§</sup>	9.65	8.85	11.36

\*April 1, 1992

<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.

<sup>§</sup>Performance calculations are for the nine months ended December 31, 1992.

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 Core Universe includes all managers categorized in the small-mid cap core 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.**

## Performance Statistics

Ten Years Ending December 31, 2019

	KAR Small-Mid Cap Core	Russell 2500™ Index
Annualized Return	15.21	12.58
Annualized Standard Deviation	13.78	15.62
Alpha	4.41	0.00
Beta	0.82	1.00
Sharpe Ratio	1.07	0.77
R-Squared	86.56	100.00

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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 Core Composite has been examined for the period from January 1, 1999 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 includes all fully discretionary institutional and pooled Small-Mid Cap Core Portfolios. Small-Mid Cap Core Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2500™ 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™ Index. The Russell 2500™ Index is a market capitalization-weighted index 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 July 2000. 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. From July 1, 2000 to December 31, 2010, only non-taxable Small-Mid Cap Core Portfolios are included in the composite. As of January 1, 2011, the composite was redefined to include both taxable and tax-exempt accounts. This composite contained < 1% non-fee-paying portfolios as of each annual period from 2013-2018.

The standard management fee schedule currently 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. Prior to January 1, 2013, the standard management fee schedule in effect for this strategy was as follows: 0.85% for the first \$25 million; 0.70% on the next \$25 million; 0.60% on the next \$50 million; 0.50% 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 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. Prior to January 1, 2011, the highest tier assumed of the standard management fee schedule for this product was 1.00%.

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		18.53	23.73
2012		15.19	19.24
2013		12.17	15.85
2014		10.27	11.84
2015		12.23	12.59
2016		12.63	13.86
2017		11.15	12.31
2018		13.31	14.30

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2500™ Index Annual Return (%)	Internal Dispersion
2009	4,010	22	12	30.58	29.31	34.39	0.47
2010	4,729	25	9	20.46	19.27	26.71	0.13
2011	5,232	37	25	8.45	7.56	(2.51)	0.13
2012	6,545	40	26	8.82	7.90	17.88	0.12
2013	7,841	59	27	31.61	30.47	36.80	0.24
2014	7,989	21	20	9.74	8.74	7.07	0.26
2015	8,095	21	18	6.16	5.23	(2.90)	0.23
2016	9,989	34	39	17.30	16.26	17.59	0.13
2017	14,609	137	83	19.77	18.71	16.81	0.31
2018	17,840	111	92	(4.41)	(5.27)	(10.00)	0.19

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