

## Small-Mid Cap Core Portfolio

First Quarter 2021



Manager of the  
Decade for the last  
3 years (2018 - 2020)

### Portfolio Review

The Small-Mid Cap Core portfolio delivered positive performance but underperformed the Russell 2500 Index in the first quarter as more cyclical, lower quality names outperformed in the first quarter. Poor stock selection in industrials and consumer discretionary detracted from performance. Good stock selection in information technology and materials contributed positively to performance.

The biggest contributors to performance during the quarter were Scotts Miracle-Gro and Thor Industries.

- Scotts Miracle-Gro continues to see demand for its gardening products due to lockdowns, and has executed well to meet the unprecedented demand. Hawthorne, the company's hydroponics segment that services cannabis growers, continued to see growth as well.
- Due to COVID-19 and its impact on consumers' lack of interest in utilizing airplanes and hotels for travel purposes, the RV industry has experienced healthy demand for Thor's products, as traveling in an RV can permit physical distancing from others while traveling in one's own living space.
- Other top contributors included Zebra Technologies, CDW and Charles River Laboratories.

The biggest detractors to performance were Copart and Chemed.

- Copart underperformed this calendar quarter potentially due to concerns of auction volume declines, or due to market participants rotating into other businesses more likely to see a larger profit rebound from economies re-opening.
- Chemed's VITAS business was negatively impacted by the decline in nursing home patient referrals as nursing home admissions have declined throughout the pandemic. We view the decline in nursing home utilization as a short-term issue as nursing homes continue to serve a structural need in the economy. We believe nursing home enrollments will normalize over time.
- Other bottom contributors included POOLCORP, MSCI and Rollins.

### Purchases and Sales

During the quarter, we purchased Duck Creek Technologies and LPL Financial Holdings. We sold DocuSign due to the company's larger market capitalization.

- Duck Creek Technologies is one of the leading providers of software solutions to Property and Casualty (P&C) insurance. Duck Creek was spun out of a large multi-national consulting firm, though the consulting firm still owns a material share of Duck Creek. Duck Creek provides mission critical software. Once implemented, the software is the core system used by insurance companies to process new business and existing claims. As such, we believe an insurance company is unlikely to replace the software for a less expensive competitor.
- LPL Financial Holdings serves independent financial advisors and financial institutions, providing them with the technology, research, clearing and compliance services, and practice management programs they need to create and grow their practices. It provides financial guidance to millions of American families seeking wealth management, retirement planning, financial planning, and asset management solutions. From our perspective, LPL has experienced above-market organic growth and high advisor retention rates as a result of these dynamics.

### Outlook

We believe the 2021/2022 economic outlook is becoming increasingly robust given significant pent-up consumer demand combined with record net worth, several trillion dollars of federal stimulus being distributed this year, vaccinations, and declining COVID-19 hospitalizations, all of which are improving consumer confidence. In a rapidly accelerating economic growth environment, low quality stocks tend to outperform high quality businesses as investors seek out companies with more operating and financial leverage. In our experience, equity markets are often 6 to 12 months ahead in assessing the business and economic environment. Once the acceleration in GDP starts to stabilize, we expect the relative performance of high-quality stocks will start to improve.

### Portfolio Highlights

**Style:** Small-Mid Cap  
**Sub-Style:** Core  
**Index:** Russell 2500™  
**Portfolio Inception:** 1992  
**Portfolio Assets:** \$12,444.1 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	35
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	26
<b>Julie Kutasov</b> Portfolio Manager + Senior Research Analyst	20
<b>Craig Stone</b> Portfolio Manager + Senior Research Analyst	32
<b>Todd Beiley, CFA</b> Senior Research Analyst	22
<b>Julie Biel, CFA</b> Senior Research Analyst	13
<b>Chris Wright, CFA</b> Senior Research Analyst	9
<b>Sean Dixon</b> Research Analyst	12
<b>Adam Xiao, CFA</b> Research Analyst	6

### Top Five Holdings

As of March 31, 2021

Company	Percent of equity (%)
Scotts Miracle-Gro	7.6
Zebra Technologies	5.7
SiteOne Landscape Supply	4.7
Charles River Laboratories International	4.6
Thor Industries	4.6
<b>Total</b>	<b>27.2</b>

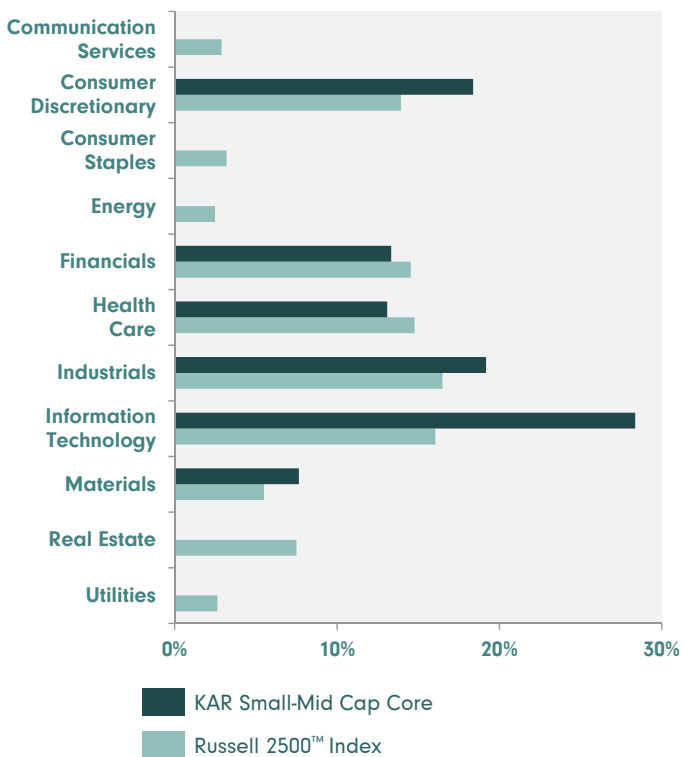
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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>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>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 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>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 March 31, 2021



## Portfolio Characteristics

As of March 31, 2021

	KAR Small-Mid Cap Core	Russell 2500™ Index
<b>Quality</b>		
Return on Equity—Past 5 Years	22.6%	10.4%
Total Debt/EBITDA	195.5 x	9.0 x
Earnings Variability—Past 10 Years	44.8%	72.2%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	17.7%	8.9%
Earnings Per Share Growth—Past 10 Years	13.5%	8.0%
Capital Generation—{ROE x (1-Payout)}	17.7%	8.0%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	36.7 x	105.2 x
Dividend Yield	0.5%	1.1%
Free Cash Flow Yield†	3.0%	2.9%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$10.7 B	\$5.4 B
Largest Market Cap—3-Year Avg.	\$24.5 B	\$22.7 B
Annualized Standard Deviation—Since Inception*	14.8%	17.9%

\*Free cash flow data is as of December 31, 2020. Prices are as of March 31, 2021. Excludes financials.

†April 1, 1992

There was a material difference in Total Debt/EBITDA and Interest Coverage Expense quality indicators for the strategy as of March 31, 2021 over the prior quarter end of December 31, 2020. This is primarily due to a single issuer in the portfolio experiencing a depressed EBITDA due to the effect of the pandemic on that issuer's business.

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.**

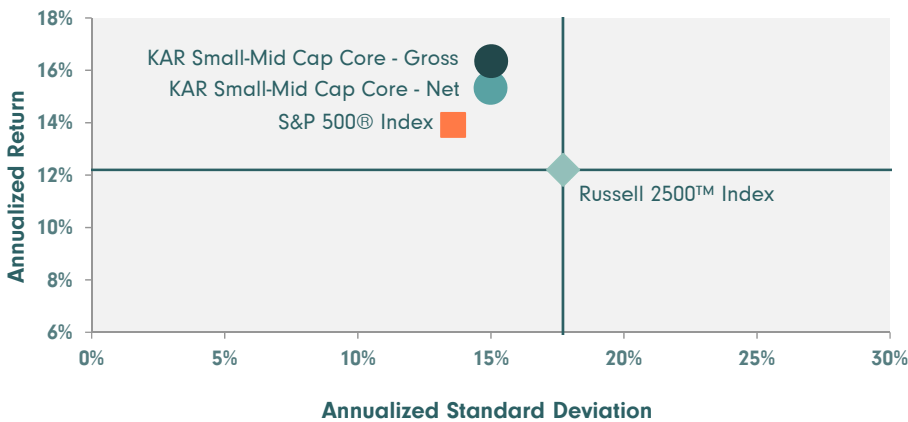
A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. Holdings and weightings are based on a representative portfolio. Individual Investors' holdings may differ slightly. The sector information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

# Small-Mid Cap Core Portfolio

First Quarter 2021

## Strong Risk-Adjusted Returns

Ten Years Ending March 31, 2021



## 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 March 31, 2021			
1 <sup>st</sup> Quarter	7.37	7.13	10.93
One Year	74.80	73.30	89.40
Three Years	24.75	23.65	15.34
Five Years	21.57	20.49	15.93
Seven Years	18.54	17.49	11.46
Ten Years	16.35	15.33	12.20
Inception*	12.61	11.54	11.24
<b>Annual Returns (%)</b>			
2020	36.45	35.25	19.99
2019	40.77	39.54	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.

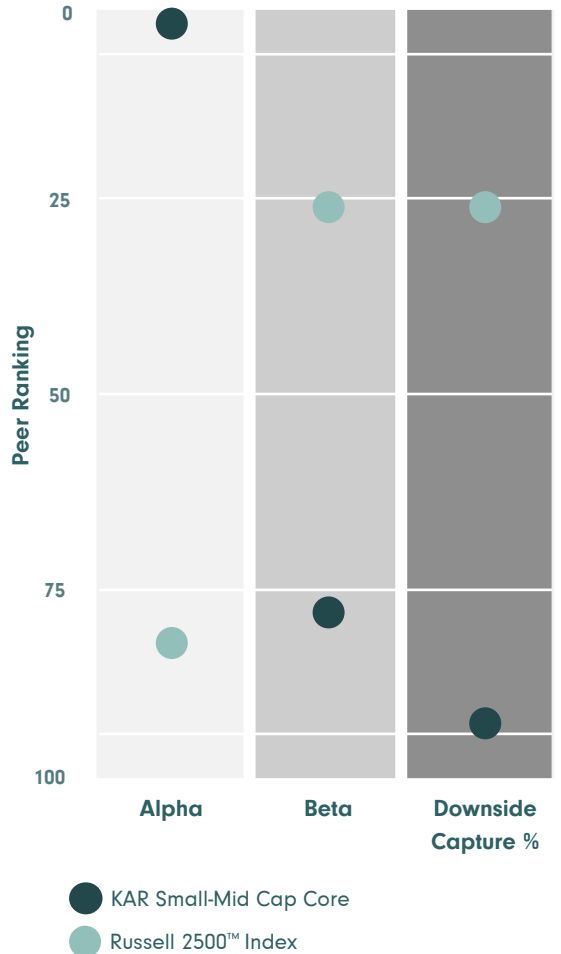
<sup>§</sup>Performance statistics are based on gross of fee returns.

<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.**

## Peer Comparison Chart

Ten Years Ending March 31, 2021



## Performance Statistics

Ten Years Ending March 31, 2021

	KAR Small-Mid Cap Core <sup>§</sup>	Russell 2500™ Index
Annualized Standard Deviation	15.01	17.71
Alpha	6.10	0.00
Beta	0.78	1.00
Sharpe Ratio	1.05	0.66
R-Squared	85.25	100.00

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### Disclosure

Year	Composite Gross Return (%)	Composite Net Return (%)	Russell 2500™ Index Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Number of Accounts	Internal Dispersion (%)	Composite Assets (\$ Millions)	Firm Assets (\$ Millions)
2010	20.46	19.27	26.71	21.89	27.18	9	0.13	25	4,729
2011	8.45	7.56	(2.51)	18.53	23.73	25	0.13	37	5,232
2012	8.82	7.90	17.88	15.19	19.24	26	0.12	40	6,545
2013	31.61	30.47	36.80	12.17	15.85	27	0.24	59	7,841
2014	9.74	8.74	7.07	10.27	11.84	20	0.26	21	7,989
2015	6.16	5.23	(2.90)	12.23	12.59	18	0.23	21	8,095
2016	17.30	16.26	17.59	12.63	13.86	39	0.13	34	9,989
2017	19.77	18.71	16.81	11.15	12.31	83	0.31	137	14,609
2018	(4.41)	(5.27)	(10.00)	13.31	14.30	92	0.19	111	17,840
2019	40.77	39.54	27.77	14.86	14.79	135	0.69	225	25,685

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

KAR (as defined below) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. KAR has been independently verified for the period from January 1, 1999 through December 31, 2019.

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, 2019. The verification and performance examination reports are available upon request.

Kayne Anderson Rudnick Investment Management, LLC ("KAR"), 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. KAR 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.

As of January 1, 2011, the composite was redefined to include both taxable and tax-exempt accounts. From July 1, 2000 to December 31, 2010, only non-taxable Small-Mid Cap Core Portfolios are included in the composite. Prior to January 1, 2011, the composite minimum was \$250,000, and 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.

Non-fee-paying portfolios represent < 1% of the composite assets at year-end from 2013 through 2019.

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.