

## All Cap Sustainable Growth Portfolio

Second Quarter 2020

### Portfolio Review

The All Cap Sustainable Growth portfolio outperformed the Russell 3000 Growth Index in the second quarter. Performance was driven primarily by strong stock selection in information technology and an underweight in health care. Poor stock selection in communication services and an underweight in energy detracted from performance.

Holdings that contributed the most to performance were Bill.com and Paycom Software. Bill.com's solid value proposition, easy to use software, strategic focus on the small and medium-sized business segment, and strong distribution partnerships form its competitive moat. Bill.com is also a natural beneficiary of businesses digitizing and automating one of the most labor intensive back-office operations. Providing further validation of the value of its software, it has also been selected by the three largest banks in the country to offer a white-labeled version to their commercial clients. Despite some concerns around employment impacting Paycom's core business, the company reported good results in the second quarter. It will likely see some modest impacts to business through the balance of the year, however, the transition to more automated payroll and HR solutions should continue. Other top contributors included The Trade Desk, Avalara and Amazon.com.

Holdings that detracted the most from performance were GSX Techedu and Interactive Brokers Group. GSX was the subject of three high profile reports in the first quarter which alleged the company was fabricating its numbers. After speaking to management and multiple industry analysts, we are convinced that the company is not an outright fraud, which the reports conclude, but that it does face increasing headwinds in the form of well-funded new competitors and rising customer acquisition costs. We believe it was prudent to reduce our position in the name given its heightened risk profile and its large weight in the portfolio. Due to global Central Banks' interest rate actions to support the economy, benchmark rates fell in the beginning of 2020, causing concern over Interactive Brokers' earnings power. The company also recognized a one-time loss related to the Black Swan event of West Texas Intermediate crude contracts going negative and having to make counterparties whole. Other bottom contributors included Philip Morris International, Elanco Animal Health and Estee Lauder.

### Outlook

Although the market has greatly recovered this quarter, we do not believe it is anticipating a robust economic recovery as many market commentators have suggested. If businesses were to get back to normal quickly, then many of the hardest hit areas in the stock market would not be 40% to 80% off of their 52-week highs set over the last year when the economy was not in a recession. Additionally, with the 10-year yield at a paltry 0.65% and the yield curve with only a slightly positive slope, this suggests a modest but not robust recovery. While there continues to be above-average uncertainty (second wave risk, election results, and economic recovery timeline) in the near term, we continue to believe our time-tested strategy of owning quality companies will continue to be rewarded over the long haul.

### Purchases and Sales

#### New Purchases

Coupa Software  
 Estee Lauder  
 Zoominfo

#### Complete Sales

ANSYS  
 Elastic  
 Philip Morris International

### Portfolio Highlights

**Style:** All Cap  
**Sub-Style:** Growth  
**Index:** Russell 3000® Growth  
**Portfolio Assets:** \$222.1 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer + Portfolio Manager	34
<b>Chris Armbruster, CFA</b> Portfolio Manager + Senior Research Analyst	15
<b>Todd Beiley, CFA</b> Senior Research Analyst	21
<b>Julie Biel, CFA</b> Senior Research Analyst	12
<b>Jon Christensen, CFA</b> Senior Research Analyst	25
<b>Julie Kutasov</b> Senior Research Analyst	19
<b>Richard Sherry, CFA</b> Senior Research Analyst	22
<b>Craig Stone</b> Senior Research Analyst	31
<b>Chris Wright, CFA</b> Senior Research Analyst	8
<b>Sean Dixon</b> Research Analyst	11
<b>Noran Eid</b> Research Analyst	7
<b>Adam Xiao, CFA</b> Research Analyst	5

### Top Five Holdings

As of June 30, 2020

Company	Percent of equity (%)
Paycom Software	5.1
Amazon.com	5.0
Bill.com Holdings	4.7
Avalara	3.8
Trade Desk	3.2
<b>Total</b>	<b>21.9</b>

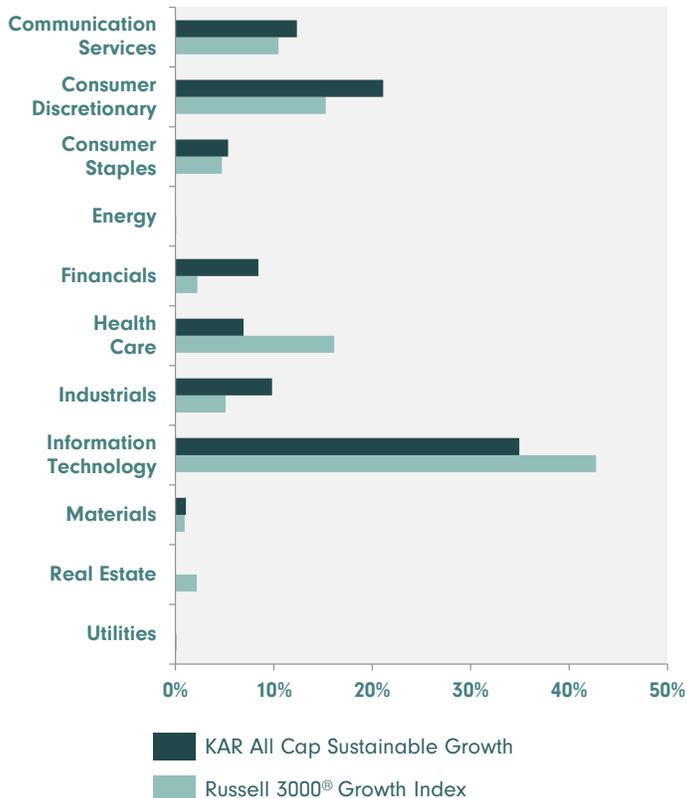
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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>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 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>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>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>Diversification Requirements</b> <b>Acquisition Activity</b> <b>Negative Company or Industry Changes</b>
<b>Higher Quality   Stronger, More Consistent Growth   Better Value</b>			

## Sector Diversification

As of June 30, 2020



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 June 30, 2020

	KAR All Cap Sustainable Growth	Russell 3000 <sup>®</sup> Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	24.8%	25.3%
Total Debt/EBITDA	5.5 x	2.4 x
Earnings Variability—Past 10 Years	35.7%	45.9%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	24.0%	19.3%
Earnings Per Share Growth—Past 10 Years	16.9%	12.5%
Capital Generation—{ROE x (1-Payout)}	20.8%	18.5%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	62.0 x	41.9 x
P/E-to-10-Year Growth	3.7 x	3.4 x
Free Cash Flow Yield*	1.7%	3.1%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap	\$160.0 B	\$542.6 B
Largest Market Cap	\$1,376.0 B	\$1,581.2 B

\*Free cash flow data is as of March 31, 2020. Prices are as of June 30, 2020.

Excludes financials.

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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Second Quarter 2020

## Risk-Return Analysis

Five Years Ending June 30, 2020



## Historical Returns

	KAR All Cap Sustainable Growth (gross)	KAR All Cap Sustainable Growth (net) <sup>†</sup>	Russell 3000® Growth Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of June 30, 2020			
2 <sup>nd</sup> Quarter	35.39	35.17	27.99
Year to Date	18.10	17.70	8.98
One Year	26.17	25.31	21.94
Three Years	24.45	23.60	18.21
Five Years	19.36	18.55	15.23
Seven Years	18.99	18.17	16.14
Inception*	18.09	17.27	15.95
<b>Annual Returns (%)</b>			
2019	40.72	39.77	35.85
2018	1.18	0.47	(2.12)
2017	35.78	34.85	29.59
2016	5.88	5.15	7.39
2015	7.41	6.67	5.09
2014	9.48	8.70	12.44
2013	32.17	31.27	34.23
2012 <sup>§</sup>	7.87	7.17	8.59

\*February 1, 2012

<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 0.70% annual fee.

<sup>§</sup>Performance calculations are for eleven months ended December 31, 2012.

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.**

## Performance Statistics

Five Years Ending June 30, 2020

	KAR All Cap Sustainable Growth	Russell 3000® Growth Index
Annualized Return	19.36	15.23
Annualized Standard Deviation	17.97	15.72
Alpha	2.60	0.00
Beta	1.10	1.00
Sharpe Ratio	1.02	0.90
R-Squared	91.83	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. 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 as all fully discretionary institutional and pooled All Cap Sustainable Growth Portfolios. All Cap Sustainable Growth Portfolios are invested in equity securities with market capitalizations consistent with the Russell 3000® 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 3000® Growth Index. The Russell 3000® Growth Index is a market capitalization-weighted index of growth-oriented stocks of the 3,000 largest 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 February 2012. 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: 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 or for time periods less than one 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 2015 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
2015	12.34	10.95
2016	13.13	11.50
2017	12.08	10.77
2018	13.85	12.47

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 3000® Growth Index Annual Return (%)	Internal Dispersion
2012*	6,545	67	12	7.87	7.17	8.59	N/A
2013	7,841	65	10	32.17	31.27	34.23	0.37
2014	7,989	89	10	9.48	8.70	12.44	0.37
2015	8,095	92	9	7.41	6.67	5.09	N/A
2016	9,989	97	10	5.88	5.15	7.39	0.10
2017	14,609	141	25	35.78	34.85	29.59	0.44
2018	17,840	140	28	1.18	0.47	(2.12)	0.24

\*2012 performance numbers in this table reflect the product inception date of February 1, 2012 through December 31, 2012.

The Russell 3000® Growth Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.