Second Quarter 2020

Kayne Anderson Rudnick Investment Management

Market Review

The first half of 2020 has brought about seemingly insurmountable challenges and unpredictability on a global basis. After stocks nosedived in the first quarter, the S&P 500 Index had its best quarter in over 20 years returning 20.54% in the second quarter, erasing most but not all of the first-quarter loss. Year-to-date, the S&P 500 is down 3.08%.

FIGURE 1: S&P 500® INDEX FORWARD PERFORMANCE FOLLOWING BEST 65-DAY % CHANGES

Date	65-Day % Change	+20-Days	+65-Days	+125-Days	+250-Days
1. 6/10/2009	38.8%	-6.0%	11.0%	17.5%	13.1%
2. 11/9/1982	38.7%	-0.8%	3.1%	15.9%	14.3%
3. 1/11/1999	30.2%	-3.8%	4.7%	10.7%	11.0%
4. 3/12/1975	28.6%	0.2%	8.3%	1.2%	19.9%
5. 7/16/1997	25.9%	-1.6%	2.0%	1.7%	25.7%
6. 4/17/1991	24.9%	-5.6%	-1.6%	-1.0%	3.5%
7. 6/12/2003	24.7%	0.0%	1.6%	6.2%	13.3%
8. 4/3/1987	24.0%	-3.7%	2.6%	9.0%	-14.1%
9. 1/28/1963	23.8%	-1.2%	5.6%	3.5%	16.4%
10. 12/2/1998	22.4%	5.0%	9.3%	11.0%	18.6%
Last 65 Trading Days	36.3%	?	?	?	?
Average		-1.8%	4.7%	7.6%	12.2%
% Positive		20.0%	90.0%	90.0%	90.0%

Data presented is as of June 25, 2020. Data is obtained from Strategas and is assumed to be reliable. ***Past performance is no guarantee of future results.***

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International developed markets and U.S. small stocks also rebounded strongly in the second quarter returning 14.88% and 25.42%, respectively, but they have been hit harder overall in this downturn relative to the U.S. large-cap market declining 11.34% and 12.98% for the year-to-date. Value stocks have significantly underperformed growth stocks with the Russell 1000 Value Index down 16.26% and the Russell 1000 Growth Index up 9.81% in the first half of the year. Value indices contain many more businesses adversely affected by COVID-19.

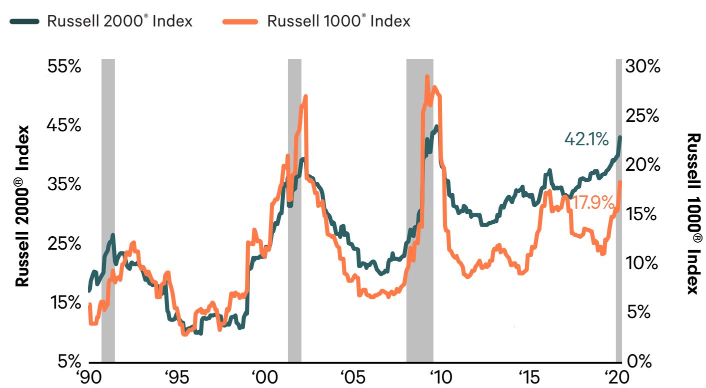
Interest rates declined slightly during the quarter as the 10-year U.S. Treasury yield declined from 0.68% to 0.65%, allowing the Bloomberg Barclays U.S. Aggregate Bond Index to advance 2.90% for the quarter and 6.14% for the first half of the year. High yield bonds rallied 9.61% during the quarter, cutting the year-to-date loss to 4.78%. Municipal bonds rallied 2.72% bringing the index into positive territory for the year with a return of 2.08%.

WHAT CAUSED THE VOLATILITY?

We came into this recession with fairly strong business momentum driven primarily by the consumer as manufacturing had been weak since early 2018 due to global trade and tariff disputes. Then along came COVID-19 which became a global pandemic and essentially shut down the entire economy seemingly overnight. Businesses with high fixed costs, high levels of debt, and minimal revenue opportunities have been the hardest hit during the lockdown. Examples of these types of businesses include airlines, cruise lines, casinos, hotels, restaurants, and brick and mortar retailers, to name a few.

FIGURE 2: PERCENT OF NON-EARNERS

Russell 2000® Index vs. Russell 1000® Index



Data presented is as of June 30, 2020. Data is based on companies with available data. Data is obtained from Strategas and is assumed to be reliable. ***Past performance is no guarantee of future results.***

Many companies have been forced to put their business disaster recovery plans into action and learn how to really operate in a more digital environment. Fortunately, the Federal Reserve and the government immediately recognized the economic impact of the virus. Monetary and fiscal policy reacted much faster than usual in order to cushion the economic free fall. The Fed has focused on providing much needed liquidity to the bond market which indirectly helped equities. Fiscal efforts have focused on helping small businesses and the unemployed.

FIGURE 3: FISCAL POLICY, % OF GDP

Financial Crisis vs. Coronavirus

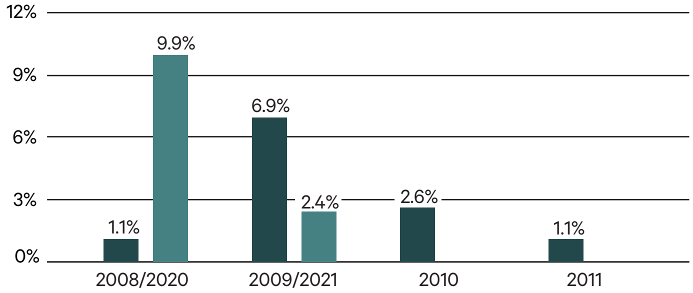
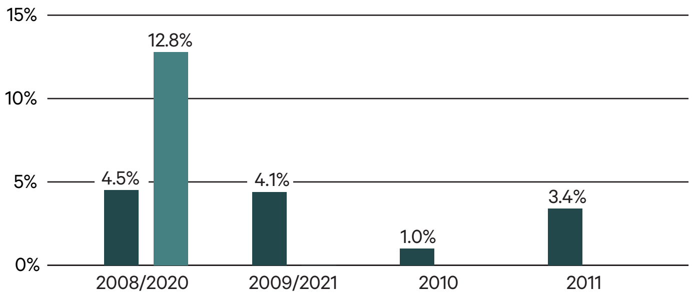


FIGURE 4: FED BALANCE SHEET GROWTH, % OF GDP

Financial Crisis vs. Coronavirus



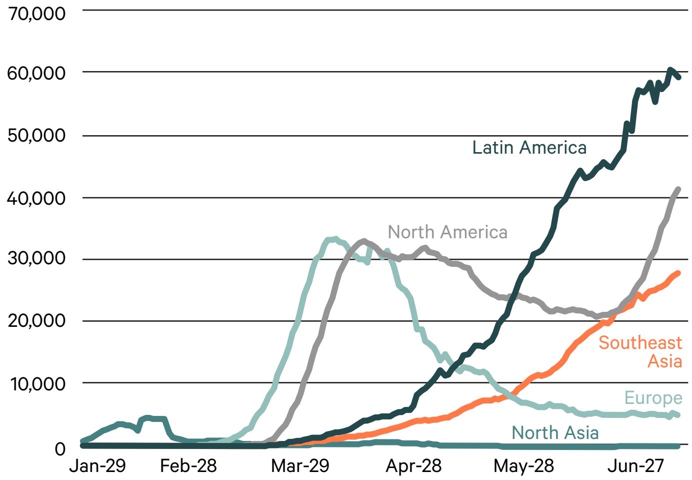
Data is for the fiscal period for the year presented. Data is obtained from Strategas and is assumed to be reliable. ***Past performance is no guarantee of future results.***

IS THE STOCK MARKET ANTICIPATING A "V" SHAPED RECOVERY?

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. It is not a meaningful prediction to believe that the economy will improve from here (despite the possibility of a second wave of infections) because there is nowhere to go but up when activity has been shut down for several months. Asia and Europe have done a better job of controlling the virus and their economies are showing meaningful signs of improvement already.

FIGURE 5: DAILY INCREASE IN CASES

7-Day Moving Average



Data presented is as of June 30, 2020. Data is obtained from Johns Hopkins CSSE and J.P. Morgan Asset Management and is assumed to be reliable. North Asia countries are China, Hong Kong, Japan, South Korea and Taiwan. Southeast Asia includes Singapore, India, Indonesia, Malaysia, Pakistan, Philippines, Thailand, Bangladesh, Sri Lanka and Vietnam. North America includes Canada and U.S. Europe includes eurozone countries, Bulgaria, Croatia, Czech Republic, Denmark, Hungary, Poland, Romania, Sweden, United Kingdom, and Switzerland. Latin America countries are Chile, Brazil, Mexico, Argentina, Colombia, Peru, Venezuela, Ecuador, Panama, Paraguay, Costa Rica, Bolivia, Uruguay, El Salvador, Honduras, Cuba, Dominican Republic, Haiti, and Nicaragua.

ANY CHANGES TO OUR INVESTMENT STRATEGY?

All of our investment strategies are focused on owning quality businesses that can prosper in good times and survive difficult ones. Interestingly, we have seen good and bad economic times in the span of six months due to the unique nature of this health crisis. At KAR, we search for competitively advantaged businesses with protectable moats regardless of how the stock market is behaving. We seek companies with balance sheet strength with low levels of debt, low capital intensity, and positive cash flow and this has been rewarded in this recession. 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.

We thank you for your trust and confidence in managing your assets in these volatile and challenging times.

Large-capitalization stocks are represented by the S&P 500® Index which is a market capitalization weighted index which includes 500 of the largest companies in leading industries of the U.S. economy. Growth stocks are represented by the Russell 1000® Growth Index which is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. Value stocks are represented by the Russell 1000® Value Index which is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. Small-capitalization stocks are represented by the Russell 2000® Index which is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. Developed international markets are represented by the MSCI® EAFE Index which is a free float-adjusted market capitalization index that measures developed foreign market equity performance, excluding the U.S. and Canada. The Bloomberg Barclays U.S. Aggregate Bond Index is a market value weighted index that tracks the daily price, coupon, pay downs and total return performance of fixed-rate, publicly placed, dollar-denominated and non-convertible investment grade debt issues with at least $250 million par amount outstanding with at least one year to final maturity. Performance is calculated on a total return basis with dividends reinvested. The ICE BofAML US High Yield Index tracks the performance of U.S. dollar denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prefunded bonds. 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 not be considered a recommendation or solicitation to purchase securities. ***Past performance is no guarantee of future results.***

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