

## Small-Mid Cap Core Portfolio

### Second Quarter 2020



### Portfolio Review

The Small-Mid Cap Core portfolio outperformed the Russell 2500 Index in the second quarter. Performance primarily was driven by an overweight and strong stock selection in the technology and consumer discretionary sectors. Poor stock selection in health care and an underweight in energy detracted from performance.

The biggest contributors to performance during the quarter were DocuSign and Thor Industries.

- As expected, DocuSign reported very strong demand for its core e-signature solutions. These solutions have allowed many businesses to continue working remotely and still be able to execute contracts.
- 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 and personal living space..
- Other top contributors included Teradyne, Scotts Miracle-Gro and SiteOne Landscape Supply.

The biggest detractors from the portfolio were AMN Healthcare Services and Bright Horizons Family Solutions.

- AMN's business was negatively impacted by COVID-19. As expected, travel nurse demand was particularly high to address COVID cases in hospitals. Elective procedures ground to a halt and with it, demand for other AMN positions declined dramatically.
- Due to the COVID-19 pandemic, Bright Horizons has closed over 75% of its care centers globally that has resulted in a contracted revenue base under its current operating conditions. However, we believe high-quality childcare will continue to be necessary going forward.
- Other detractors included Elanco Animal Health, Interactive Brokers Group and Exponent.

### Purchases and Sales

During the quarter, we purchased Bright Horizons Family Solutions and we sold Winmark.

- Bright Horizons is a primary childcare and back-up care provider that has built a high-quality brand associated with caring for the most precious member of one's family. The business's target market is employer organizations who provide childcare as part of their benefit packages to employees. The business has high switching costs as an employer subsidized childcare program is difficult to transition to another provider.
- We sold Winmark as current operating conditions driven by the COVID-19 pandemic remain highly challenging with mandated store closures and low visibility in terms of both the duration and scale of the impact.

### 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.

### Portfolio Highlights

**Style:** Small-Mid Cap  
**Sub-Style:** Core  
**Index:** Russell 2500™  
**Portfolio Inception:** 1992  
**Portfolio Assets:** \$6,196.0 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

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

### Top Five Holdings

As of June 30, 2020

Company	Percent of equity (%)
DocuSign	7.4
Scotts Miracle-Gro	6.0
Teradyne	5.3
MSCI	4.9
Thor Industries	4.9
<b>Total</b>	<b>28.4</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>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>

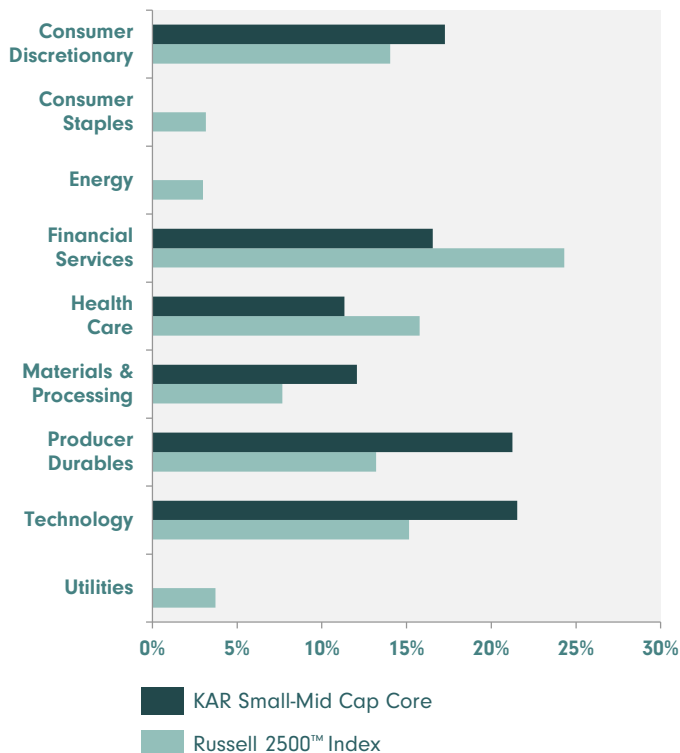
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of 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 Russell sector classifications. Data is obtained by FactSet Research Systems and is assumed to be reliable.

## Portfolio Characteristics

As of June 30, 2020

	KAR Small-Mid Cap Core	Russell 2500™ Index
<b>Quality</b>		
Return on Equity—Past 5 Years	22.9%	10.8%
Total Debt/EBITDA	2.3 x	12.0 x
Earnings Variability—Past 10 Years	38.4%	64.7%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	15.7%	9.2%
Earnings Per Share Growth—Past 10 Years	13.8%	9.0%
Capital Generation—{ROE x (1-Payout)}	18.0%	8.0%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	35.4 x	42.6 x
Dividend Yield	0.7%	1.5%
Free Cash Flow Yield†	3.1%	3.7%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$8.9 B	\$5.1 B
Largest Market Cap—3-Year Avg.	\$19.2 B	\$21.0 B
Annualized Standard Deviation—Since Inception*	14.8%	17.8%

†Free cash flow data is as of March 31, 2020. Prices are as of June 30, 2020. Excludes financials.

\*April 1, 1992

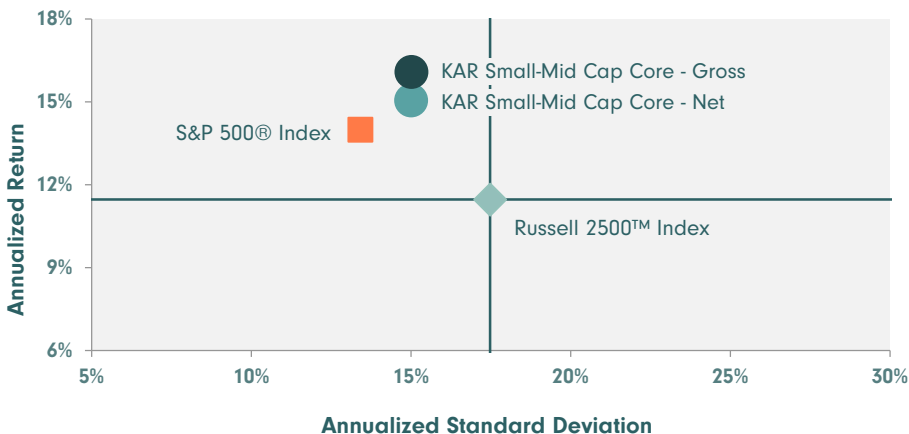
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. **Past performance is no guarantee of future results.**

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Second Quarter 2020

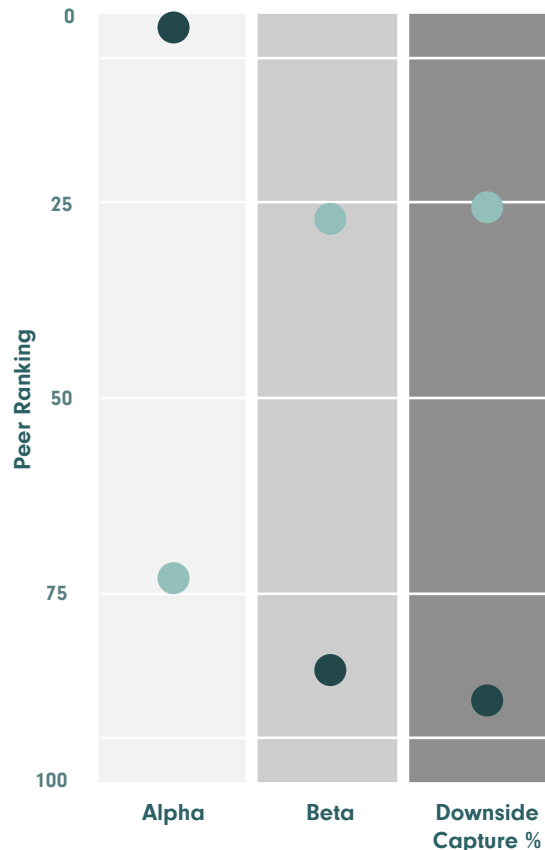
## Strong Risk-Adjusted Returns

Ten Years Ending June 30, 2020



## Peer Comparison Chart

Ten Years Ending June 30, 2020



## 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 June 30, 2020			
2 <sup>nd</sup> Quarter	29.16	28.89	26.56
Year to Date	8.25	7.77	(11.05)
One Year	20.23	19.17	(4.70)
Three Years	17.52	16.48	4.08
Five Years	15.14	14.13	5.41
Seven Years	16.00	14.98	8.15
Ten Years	16.08	15.06	11.46
Inception*	11.76	10.70	9.97

Annual Returns (%)	KAR Small-Mid Cap Core (gross)	KAR Small-Mid Cap Core (net) <sup>†</sup>	Russell 2500™ Index
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 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 June 30, 2020

	KAR Small-Mid Cap Core	Russell 2500™ Index
Annualized Return	16.08	11.46
Annualized Standard Deviation	15.01	17.48
Alpha	6.20	0.00
Beta	0.80	1.00
Sharpe Ratio	1.04	0.62
R-Squared	87.13	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.