

## Small-Mid Cap Quality Value Portfolio

### Second Quarter 2020



### Portfolio Review

The Small-Mid Cap Quality Value portfolio outperformed the Russell 2500 Value Index. Performance was driven primarily by strong stock selection in the consumer discretionary and financial services sectors. An underweight in energy and poor stock selection in producer durables detracted from performance.

The biggest contributors to performance during the quarter were Thor Industries and Scotts Miracle-Gro. 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. Due to lock-ins and population concerns about food security, Scotts Miracle-Gro has seen an increase in demand for its consumer goods that enable edible gardening. Hawthorne, the company's hydroponics segment, also grew revenues and profits significantly from the prior year. Other top contributors included National Beverage, Teradyne and TransUnion.

The biggest detractors from the portfolio were WD-40 and Graco. WD-40 remained resilient during the broader market sell off in the first quarter, but it did not participate as much in the broader market rebound in the second quarter. We believe that WD-40 is well positioned to continue to grow by leveraging the company's highly recognizable brand. Graco's business experienced depressed demand for its products across geographies. However, even under the economic uncertainty from COVID-19, we believe the business continues to have a sound competitive position that is likely to drive satisfactory business performance through an economic cycle. Other bottom contributors included Dolby Laboratories, Cass Information Systems and Toro.

### Purchases and Sales

During the quarter, we purchased Dolby Laboratories, Lennox International, ServiceMaster and Teradyne. We sold Cass Information Systems and Cinemark.

#### Purchases

- Dolby designs high-quality audio and visual technology. Over decades, Dolby has been able to establish a brand for excellence and it has done so by investing heavily in both marketing and research and development to stay relevant and in front of major changes in standards and technology.
- Lennox International manufactures a wide variety of heating, ventilation, air conditioning (HVAC) and refrigeration products. Being the second largest residential HVAC manufacturer enables Lennox to leverage fixed costs, obtain purchase discounts and benefit from nationwide marketing campaigns.
- ServiceMaster provides residential and commercial termite and pest control and national accounts pest control services, among other services. Terminix is one of their largest segments and is the best known brand in termite control.
- Teradyne manufactures and sells automatic test systems used to test semiconductors, wireless products, data storage and complex electronic systems in the consumer electronics, wireless, automotive, industrial, aerospace, and defense industries.

#### Sales

- We sold Cass Information Systems as we believe there are major hurdles for the company that will be hard to overcome, specifically issues related to interest rates at zero and low oil prices. With the stock holding up well in the market decline due to its debt-free balance sheet, we sold our position to help fund increases to existing portfolio positions.
- With most movie theaters closed globally, Cinemark has had no revenues during the past couple of months. It will be difficult for the company to match past profitability with social distancing leading to lower capacity, consumers' adoption of streaming services, and movie studios producing fewer box office titles.

### 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:** Value  
**Index:** Russell 2500™ Value  
**Portfolio Inception:** 2008  
**Portfolio Assets:** \$233.2 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	34
<b>Julie Kutasov</b> Portfolio Manager + Senior Research Analyst	19
<b>Craig Stone</b> Portfolio Manager + Senior Research Analyst	31
<b>Todd Bailey, 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>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 (%)
Scotts Miracle-Gro	6.7
Thor Industries	5.0
MSCI	4.9
TransUnion	4.8
National Beverage	4.6
<b>Total</b>	<b>25.9</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

Development of High-Quality Universe	Proprietary Fundamental Research	Portfolio Construction	Sell Discipline
<p><b>Quantitative Screens</b></p> <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> <p><b>Other Resources</b></p> <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>	<p><b>Qualitative Analysis</b></p> <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> <p><b>Financial Analysis</b></p> <ul style="list-style-type: none"> <li>• Evaluate basis for superior profitability, long-term growth potential, and ability to allocate capital appropriately</li> </ul> <p><b>Valuation Analysis</b></p> <ul style="list-style-type: none"> <li>• Determine the current and potential value of the business</li> </ul>	<p><b>Position Weights</b></p> <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> <p><b>Sector Tolerances</b></p> <ul style="list-style-type: none"> <li>• Seek broad diversification, but no sector constraints</li> </ul> <p><b>Non-U.S. Holdings</b></p> <ul style="list-style-type: none"> <li>• Up to 20%</li> </ul> <p><b>Holding Period</b></p> <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> <p><b>Cash Levels</b></p> <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>	<p><b>Extended Valuation</b></p> <p><b>Portfolio Upgrade</b></p> <p><b>Acquisition Activity</b></p> <p><b>Negative Company or Industry Changes</b></p>

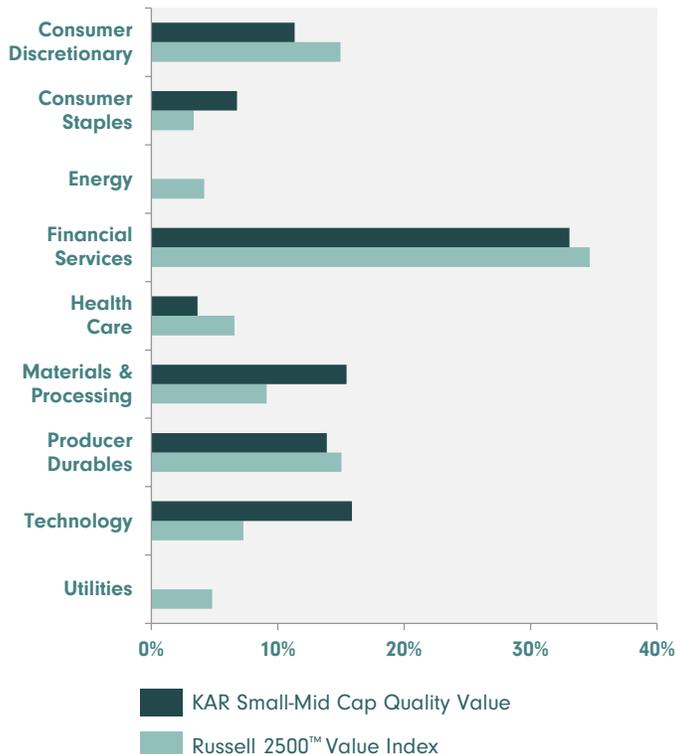
Higher Quality

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 Quality Value	Russell 2500™ Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	24.1%	10.7%
Total Debt/EBITDA	3.1 x	13.3 x
Earnings Variability—Past 10 Years	35.5%	63.8%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	9.8%	7.0%
Earnings Per Share Growth—Past 10 Years	11.2%	8.3%
Dividend Per Share Growth—Past 5 Years	16.5%	7.7%
Dividend Per Share Growth—Past 10 Years	11.5%	9.2%
Capital Generation—{ROE x (1-Payout)}	15.7%	7.2%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	28.9 x	26.2 x
Dividend Yield	1.3%	2.2%
Free Cash Flow Yield†	4.6%	6.0%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$7.5 B	\$4.8 B
Largest Market Cap—3-Year Avg.	\$19.4 B	\$14.5 B
Annualized Standard Deviation—Since Inception*	17.6%	20.0%

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

†January 1, 2008

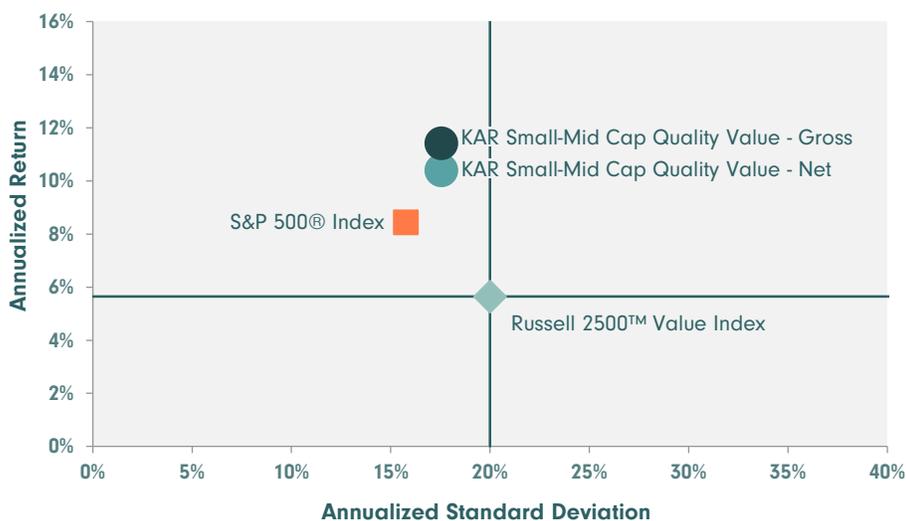
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics.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

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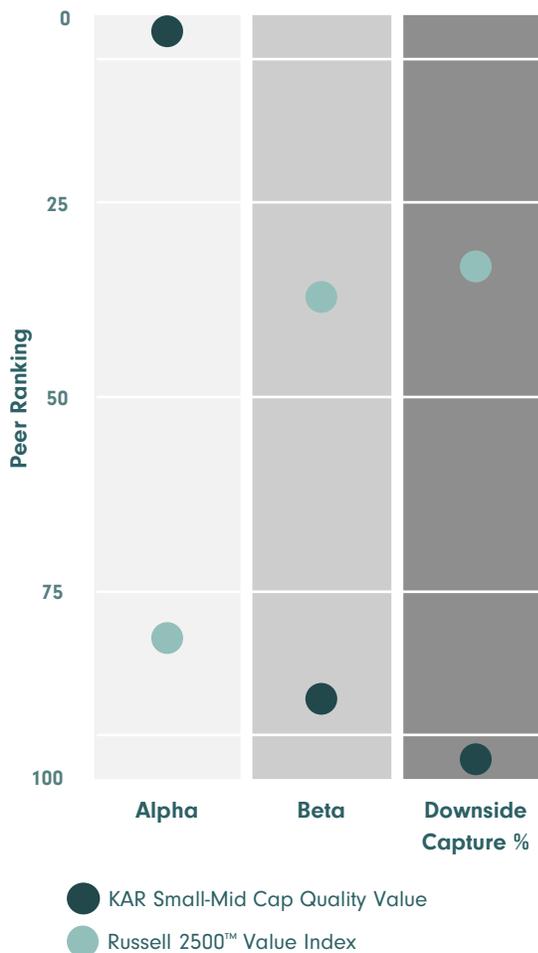
## Strong Risk-Adjusted Returns

Inception\* to June 30, 2020



## Peer Comparison Chart

Inception\* to June 30, 2020



## Historical Returns

	KAR Small-Mid Cap Quality Value (gross)	KAR Small-Mid Cap Quality Value (net) <sup>†</sup>	Russell 2500™ Value Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of June 30, 2020			
2 <sup>nd</sup> Quarter	28.13	27.86	20.60
Year to Date	(2.17)	(2.61)	(21.18)
One Year	6.67	5.71	(15.50)
Three Years	8.07	7.10	(2.60)
Five Years	9.25	8.28	1.85
Seven Years	11.45	10.45	4.74
Ten Years	13.45	12.45	8.81
Inception*	11.42	10.41	5.65

### Annual Returns (%)

Year	KAR Small-Mid Cap Quality Value (gross)	KAR Small-Mid Cap Quality Value (net) <sup>†</sup>	Russell 2500™ Value Index
2019	33.20	32.03	23.56
2018	(11.97)	(12.77)	(12.36)
2017	18.43	17.38	10.36
2016	19.69	18.63	25.20
2015	(0.58)	(1.47)	(5.49)
2014	8.88	7.89	7.11
2013	36.30	35.12	33.32
2012	11.01	10.07	19.21
2011	7.40	6.52	(3.36)
2010	25.83	24.61	24.82
2009	32.51	31.22	27.68
2008	(18.99)	(19.82)	(31.99)

\*January 1, 2008

<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.

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 Value Universe includes all managers categorized in the small-mid cap value 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

Inception\* to June 30, 2020

	KAR Small-Mid Cap Quality Value	Russell 2500™ Value Index
Annualized Return	11.42	5.65
Annualized Standard Deviation	17.55	19.99
Alpha	6.17	0.00
Beta	0.83	1.00
Sharpe Ratio	0.62	0.25
R-Squared	90.01	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 Quality Value Composite has been examined for the period from January 1, 2012 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 is defined as all fully discretionary institutional and pooled Small-Mid Cap Quality Value Portfolios (including cash) under management for at least one full quarter. Small-Mid Cap Quality Value Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2500™ Value 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™ Value Index. The Russell 2500™ Value Index is a market capitalization-weighted index of value-oriented stocks 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 June 2008. 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. As of January 1, 2011, the composite was redefined to include both institutional and mutual fund [or pooled] accounts. Previously, only institutional accounts were included. Non-fee-paying portfolios represent < 1% of composite assets as of each annual period end from 2013-2018.

The standard fee schedule 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. Actual management fees charged may vary depending on applicable fee schedules and portfolio size, among other things. Additional information may be found in Part IIA 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 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, 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	20.07	24.57
2012	13.97	18.67
2013	12.01	15.29
2014	10.65	11.41
2015	12.25	12.19
2016	12.24	13.36
2017	10.88	11.98
2018	12.93	13.77

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2500™ Value Index Annual Return (%)	Internal Dispersion
2009	4,010	< 1	< 5	32.51	31.22	27.68	N/A
2010	4,729	< 1	< 5	25.83	24.61	24.82	N/A
2011	5,232	1	< 5	7.40	6.52	(3.36)	N/A
2012	6,545	85	< 5	11.01	10.07	19.21	N/A
2013	7,841	138	6	36.30	35.12	33.32	0.13
2014	7,989	140	12	8.88	7.89	7.11	0.09
2015	8,095	371	17	(0.58)	(1.47)	(5.49)	0.05
2016	9,989	395	22	19.69	18.63	25.20	0.24
2017	14,609	427	49	18.43	17.38	10.36	0.45
2018	17,840	162	36	(11.97)	(12.77)	(12.36)	0.40

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