

## Small Cap Sustainable Growth Portfolio

First Quarter 2020

### Portfolio Review

The Small Cap Sustainable Growth portfolio and the Russell 2000 Growth Index both slid into negative territory late in the first quarter, with the Small Cap Sustainable Growth portfolio outperforming the index. Strong stock selection in the technology and producer durables sectors contributed to performance. An underweight and poor stock selection in health care and an underweight in utilities detracted from performance, along with a general deterioration of the overall equity markets due to the COVID-19 pandemic.

The biggest contributors to performance during the quarter were DocuSign and Old Dominion Freight Line. DocuSign's enabling technology and expanded use cases are likely insulating the company from the impacts of the COVID-19 pandemic. Results prior to the coronavirus showed strong growth and improved profitability. We believe the company will solidify its competitive position in this downturn. During the most recent quarter, Old Dominion Freight Line showed continued price increases despite declining volumes. Industry volumes are likely to be challenged mid-year due to the COVID-19 pandemic-related declines in economic activity, but the company has a net cash balance and high margins that should allow it to better weather the downturn than peers. Other top contributors included Grocery Outlet, Avalara and BlackLine.

The biggest detractors from the portfolio were Fox Factory and Auto Trader. Fox Factory continues to perform well as the business reported revenue growth in each of its segments in the latest reported period. As illustrated by the company's fundamental performance over time, we believe the business continues to be supported by a strong brand in premium and higher performance suspension products that will allow the company to persevere throughout an economic cycle and the resulting impacts from COVID-19. In response to COVID-19, Auto Trader will allow its dealer customers to defer March fees for 30 days and is eliminating April charges altogether. This will result in an operating loss during April. Other bottom contributors included Rightmove, The Chefs' Warehouse and Paycom Software.

### Purchases and Sales

There were no purchases or sales during the quarter.

### Outlook

We believe that a few things will need to occur for the economy to begin to emerge from a recession: 1) The number of global COVID-19 cases peak out and decline sequentially; 2) fixed-income spreads stabilize and tighten fairly consistently; 3) returns for the Russell 2000 Index (small-capitalization stocks) are greater than the S&P 500 Index (large-capitalization stocks), particularly on down days; and 4) debt-laden companies perform better (or at least stop going down).

Nobody really knows when this will happen in the future, so what are we doing at KAR? Fortunately, our quality investment style lends itself to owning businesses with more variable cost structures, debt-free balance sheets and positive cash flow. These businesses are not immune to recession, but we believe they have the highest probability of surviving it and will ultimately prosper. As always, we are thinking about the next three-to-five years and we feel very confident that we will recover at some point.

Uncertainty is high in the short-term and predictability is very low over the near-term, but we believe the long-term outlook for our businesses is favorable.



### Portfolio Highlights

**Style:** Small Cap  
**Sub-Style:** Growth  
**Index:** Russell 2000® Growth  
**Portfolio Inception:** 1998  
**Portfolio Assets:** \$6,099.9 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	34
<b>Todd Bailey, CFA</b> Portfolio Manager + Senior Research Analyst	21
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	25
<b>Julie Biel, CFA</b> Senior Research Analyst	12
<b>Julie Kutasov</b> Senior Research Analyst	19
<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>Adam Xiao, CFA</b> Research Analyst	5

### Top Five Holdings

As of March 31, 2020

Company	Percent of equity (%)
DocuSign	6.8
Autohome	6.7
Old Dominion Freight Line	6.3
Auto Trader	6.2
Paycom Software	6.1
<b>Total</b>	<b>32.1</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.*

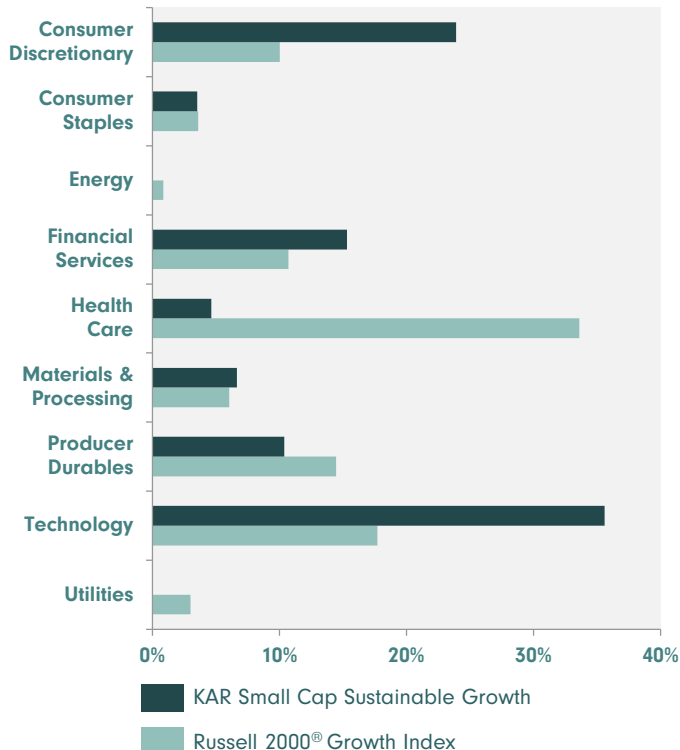
## Investment Process: Discovering Quality

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 March 31, 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 March 31, 2020

	KAR Small Cap Sustainable Growth	Russell 2000® Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	18.3%	10.7%
Total Debt/EBITDA	1.0 x	3.9 x
Earnings Variability—Past 10 Years	27.5%	67.7%
<b>Growth</b>		
Earnings Per Share Growth—Past 10 Years	14.1%	9.9%
Capital Generation—{ROE x (1-Payout)}	15.3%	9.0%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	37.5 x	85.0 x
Free Cash Flow Yield <sup>†</sup>	2.3%	1.8%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$5.7 B	\$2.6 B
Largest Market Cap—3-Year Avg.	\$15.3 B	\$9.2 B
Annualized Standard Deviation—Since Inception <sup>‡</sup>	18.1%	23.0%

<sup>†</sup>Free cash flow data is as of December 31, 2019. Prices are as of March 31, 2020. Excludes financials.

<sup>‡</sup>January 1, 1998

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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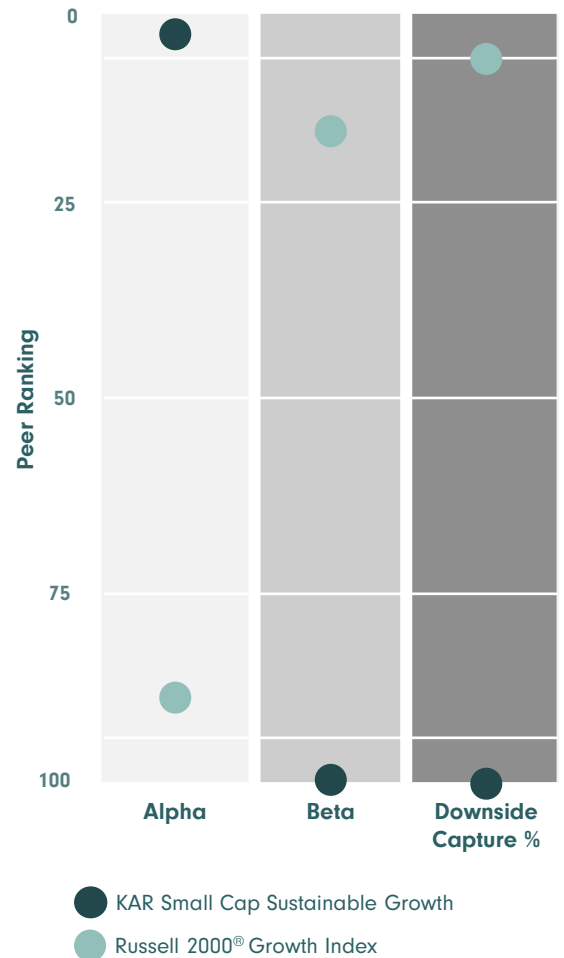
## Strong Risk-Adjusted Returns

Inception\* to March 31, 2020



## Peer Comparison Chart

Ten Years Ending March 31, 2020



## Historical Returns

	KAR Small Cap Sustainable Growth (gross)	KAR Small Cap Sustainable Growth (net) <sup>‡</sup>	Russell 2000® Growth Index
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### Annualized Returns (%)

As of March 31, 2020

1 <sup>st</sup> Quarter	(16.71)	(16.93)	(25.76)
One Year	(3.78)	(4.75)	(18.58)
Three Years	19.51	18.33	0.10
Five Years	17.56	16.41	1.70
Seven Years	17.61	16.45	6.47
Ten Years	17.68	16.53	8.89
Inception*	10.87	9.77	5.34

### Annual Returns (%)

2019	41.37	40.00	28.48
2018	10.69	9.59	(9.31)
2017	39.03	37.69	22.17
2016	26.11	24.88	11.32
2015	2.57	1.55	(1.38)
2014	6.47	5.40	5.60
2013	39.89	38.53	43.30
2012	13.29	12.16	14.59
2011	17.82	16.69	(2.91)
2010	14.82	13.69	29.09
2009	38.51	37.16	34.47
2008	(33.61)	(34.32)	(38.54)
2007	(0.59)	(1.59)	7.05
2006	15.80	14.66	13.35
2005	1.88	0.85	4.15
2004	12.82	11.68	14.31
2003	38.44	37.10	48.54
2002	(23.82)	(24.60)	(30.26)
2001	0.48	(0.49)	(9.23)
2000	6.28	5.22	(22.43)
1999	31.19	29.92	43.09
1998	3.33	2.28	1.23

\*January 1, 1998

<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 1% 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 Cap Growth Universe includes all managers categorized in the small cap growth 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 March 31, 2020

	KAR Small Cap Sustainable Growth	Russell 2000® Growth Index
Annualized Return	10.87	5.34
Annualized Standard Deviation	18.10	22.98
Alpha	6.25	0.00
Beta	0.67	1.00
Sharpe Ratio	0.49	0.15
R-Squared	72.92	100.00

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First Quarter 2020

### 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 Cap Sustainable Growth 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 Cap Sustainable Growth Portfolios. Small Cap Sustainable Growth Portfolios are invested in equity securities with market capitalizations in line with the Russell 2000® 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 2000® Growth Index. The Russell 2000® Growth Index is a market capitalization-weighted index of growth-oriented stocks of the 2,000 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 January 1998. 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.

The standard management fee schedule currently in effect is as follows: 1.00% for the first \$25 million; 0.80% on the next \$25 million; 0.70% 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.

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	19.74	24.65
2012	15.54	21.01
2013	12.22	17.52
2014	12.35	14.02
2015	14.08	15.16
2016	14.85	16.91
2017	12.69	14.80
2018	13.29	16.69

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2000® Growth Index Annual Return (%)	Internal Dispersion
2009	4,010	11	11	38.51	37.16	34.47	0.94
2010	4,729	12	12	14.82	13.69	29.09	0.22
2011	5,232	180	14	17.82	16.69	(2.91)	0.51
2012	6,545	155	17	13.29	12.16	14.59	0.42
2013	7,841	232	23	39.89	38.53	43.30	1.42
2014	7,989	205	20	6.47	5.40	5.60	0.40
2015	8,095	244	17	2.57	1.55	(1.38)	0.40
2016	9,989	614	19	26.11	24.88	11.32	0.54
2017	14,609	2038	40	39.03	37.69	22.17	1.40
2018	17,840	4738	79	10.69	9.59	(9.31)	0.85

The Russell 2000® Growth Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.