

## Small-Mid Cap Sustainable Growth Portfolio

First Quarter 2020

### Portfolio Review

During a volatile quarter, the Small-Mid Cap Sustainable Growth portfolio delivered strong outperformance relative to the Russell 2500 Growth Index. Strong stock selection overall led the outperformance. Specifically, stock selection and an overweight in technology and stock selection in financials contributed the most to performance. Negative stock selection and an underweight in health care and an underweight in utilities detracted from performance.

The biggest contributors to performance during the quarter were DocuSign and Five9. DocuSign's technology enables companies to conduct more of their business digitally. Beyond eSignature, the company provides total contract lifecycle management and, during an unprecedented shift to work at home, has had robust performance. Five9 offers cloud-based contact center management. Its technology has enabled thousands of call center workers to effectively work from home with all of the capabilities they had in the contact center. Its business is expected to grow as a result of the COVID-19 pandemic. Other top contributors included Old Dominion Freight Line, Avalara and Grocery Outlet Holding.

The biggest detractors from the portfolio were HEICO and Guidewire Software. HEICO's stock has been battered thanks to its substantial exposure to commercial airline replacement parts. With commercial aviation at a standstill, the company withdrew guidance for the year and expects a material decline in revenue until the pandemic plays out. That said, we believe the company's competitive position is intact and should weather this storm well. Guidewire Software provides technology to large insurance providers to help modernize their systems. The company will likely see its long sales cycles only stretch out further with the pandemic. The delays in large deal closures are likely transitory, however, they will negatively impact both sales and earnings in 2020. Other bottom contributors included Rightmove, Paycom Software and Copart.

### Purchases and Sales

During the quarter, we purchased Lamb Weston Holdings and we sold International Flavors and Fragrances.

Lamb Weston is one of the largest manufacturers and distributors of frozen potato products. The company has a strong competitive position and very stable growth in challenging market conditions.

We sold International Flavors and Fragrances as the company has struggled to integrate its Frutarom acquisition, which casted doubts on the quality of the underlying assets. We are concerned that competition is increasing and that it has diluted its core asset base with less competitively advantaged acquisitions.

### 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-Mid Cap  
**Sub-Style:** Growth  
**Index:** Russell 2500™ Growth  
**Portfolio Inception:** 2018  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	34
<b>Julie Biel, CFA</b> Portfolio Manager + Senior Research Analyst	12
<b>Todd Beiley, CFA</b> Senior Research Analyst	21
<b>Jon Christensen, CFA</b> Senior Research Analyst	25
<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	6.3
Tyler Technologies	5.5
Five9	5.2
Old Dominion Freight Line	4.7
MarketAxess Holdings	4.6
<b>Total</b>	<b>26.3</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>

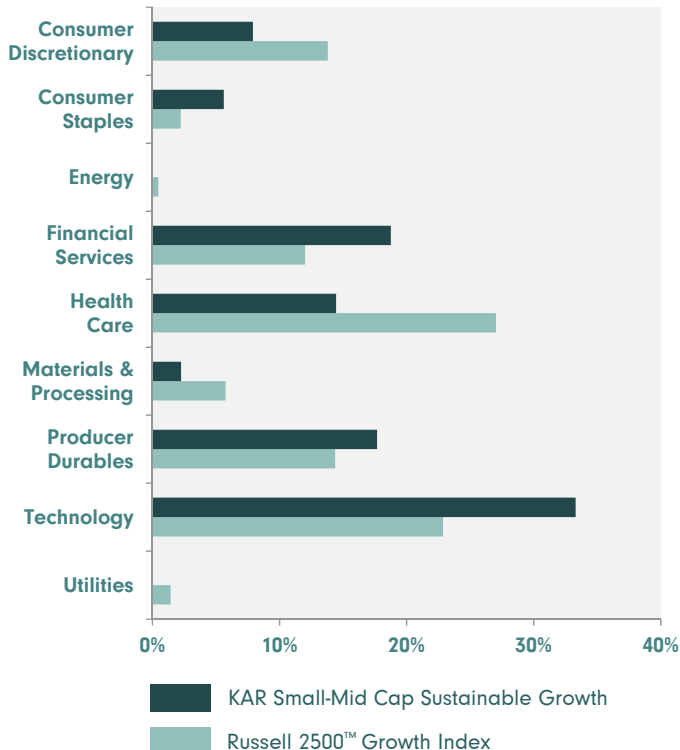
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of March 31, 2020



## Portfolio Characteristics

As of March 31, 2020

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	15.8%	13.4%
Total Debt/EBITDA	2.1 x	9.5 x
Earnings Variability—Past 10 Years	24.7%	57.3%
<b>Growth</b>		
Earnings Per Share Growth—Past 10 Years	18.1%	12.8%
Capital Generation—{ROE x (1-Payout)}	14.2%	11.2%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	53.3 x	49.0 x
Free Cash Flow Yield†	2.3%	2.8%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap.	\$10.0 B	\$5.5 B
Largest Market Cap	\$22.8 B	\$24.5 B

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.

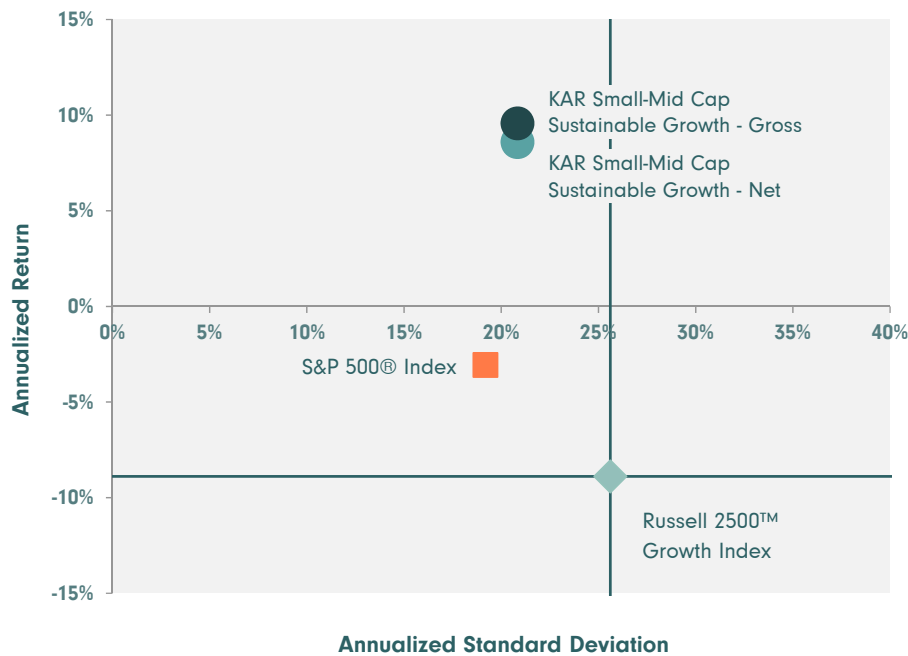
†Free cash flow data is as of December 31, 2019. Prices are as of March 31, 2020. Excludes financials. This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be 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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First Quarter 2020

## Strong Risk-Adjusted Returns

Inception\* to March 31, 2020



## Peer Comparison Chart

Inception\* to March 31, 2020



## Historical Returns

	KAR Small-Mid Cap Sustainable Growth (gross)	KAR Small-Mid Cap Sustainable Growth (net) <sup>‡</sup>	Russell 2500™ Growth Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of March 31, 2020			
1 <sup>st</sup> Quarter	(12.00)	(12.21)	(23.22)
One Year	7.56	6.60	(14.40)
Inception*	9.56	8.58	(8.89)
<b>Annual Returns (%)</b>			
2019	46.11	44.85	32.65
2018 <sup>§</sup>	(9.44)	(9.79)	(15.93)

## Performance Statistics

Inception\* to March 31, 2020

	KAR Small-Mid Cap Sustainable Growth	Russell 2500™ Growth Index
Annualized Return	9.56	(8.89)
Annualized Standard Deviation	20.84	25.61
Alpha	16.52	0.00
Beta	0.77	1.00
Sharpe Ratio	0.37	(0.44)
R-Squared	88.97	100.00

\*August 1, 2018

<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 five months ended December 31, 2018.

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 Growth Universe includes all managers categorized in the small-mid 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.**

## Small-Mid Cap Sustainable Growth Portfolio

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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. The verification reports are available upon request.

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 is defined as all fully discretionary institutional and pooled Small-Mid Cap Sustainable

Growth Portfolios. Small-Mid Cap Sustainable Growth Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2500™ Growth Index, that have market control, solid 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™ Growth Index. The Russell 2500™ Growth Index is a market capitalization-weighted index of growth-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 August 2018. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

Non-fee-paying portfolios represent 100% of composite assets as of 12/31/2018.

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 1/12<sup>th</sup> 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, which measures the variability of the composite (using gross returns) and the benchmark for the 36-month period, is not presented because 36 monthly composite returns are not available.

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2500™ Growth Index Annual Return (%)	Internal Dispersion
2018*	17,840	0.2	< 5	(9.44)	(9.79)	(15.93)	n/a

\*2018 performance numbers in this table reflect the composite inception date of August 1, 2018 through December 31, 2018.

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