

Small-Mid Cap Core Portfolio

Second Quarter 2019 | Managed Accounts



Portfolio Review

The Small-Mid Cap Core portfolio easily topped the Russell 2500 Index during the second quarter. Performance primarily was driven by strong stock selection across sectors, with technology and materials & processing leading the way. While still producing positive results, an underweight in utilities and consumer staples contributed the least to performance during the quarter.

The biggest contributors to performance during the quarter were ScottsMiracle-Gro and MSCI.

- ScottsMiracle-Gro's hydroponic segment's cannabis grower customers were adversely affected in 2018 by California's cannabis licensing law, which caused many growers to exit the market during that year. We took advantage of this stock weakness to add to our position. In the first half of 2019, hydroponic sales ceased their decline and returned to double-digit year-over-year organic growth in the second quarter. This gave market participants increased confidence that the grower disruption had been mostly worked through causing the stock to rebound strongly. We view the franchise strength of ScottsMiracle-Gro's lawn and garden brands, including its hydroponics segment, as intact and remain owners of the business.
- As the preeminent provider of indices for international investing strategies, MSCI remains a beneficiary of the increased investment in non-U.S. markets and the shift from active to passive strategies. This was evident over the past 12 months, as both revenue and profits grew by double-digit percentages.

The biggest detractors from the portfolio were nVent Electric and Winmark.

- nVent Electric is a recent spin-off from Pentair. We initiated a position in Q2 post spin from Pentair. We believe that the brand and the vast distribution network allow the company to have leading market share in almost all of its leading categories. Near-term, the uncertainty surrounding trade tariff issues and a lack of support for this industry has caused some near-term stock price decline.
- The stock market trading volume of Winmark equity is relatively low and, on March 28, 2019, Winmark completed a tender offer for 150,000 Winmark shares and this possibly influenced the performance of the share price within the second quarter. The fundamental performance of Winmark's business continues to be satisfactory.

Purchases and Sales

During the quarter, WABCO Holdings was sold and we purchased a new position in nVent Electric.

- nVent Electric is a recent spin-off from Pentair. nVent engages in the provision of electrical connection and protection solutions. Electrical connection and protection products are very critical in terms of safety and therefore quality brands are very important. Some of nVent's brands date back 50 to 100 years and belie the difficulty new brands can have to garner quality reputation and market share. Because most of the products that nVent produces are a small portion of total costs for customers, there is little incentive for distributors and ultimately customers to try out new brands and risks the costs of failure. With leading shares and margins, we believe the company has further opportunities to take share from smaller competitors and leverage its cost structure placing it in an even better position to succeed.
- WABCO Holdings was sold following the company's announcement on March 28 that it was being acquired by German company ZF Friedrichshafen in an all-cash transaction. While the deal is not scheduled to close until early 2020, we sold our position to fund a new position in nVent Electric.

Outlook

Corporate growth rates in the U.S. grew modestly in the first quarter and we still believe S&P 500 earnings can advance in the mid single-digit range in 2019. Investors weren't rewarded for outstanding earnings growth in 2018 (+20% growth) with the S&P 500 declining over 4%. Corporate margins have not fallen apart in 2019 and this has caused stock returns to catch up to actual earnings growth. Returns from here will be driven by prospects for continued earnings growth into 2020.

Portfolio Highlights

Style: Small-Mid Cap
Sub-Style: Core
Index: Russell 2500™
Portfolio Inception: 1992
Portfolio Assets: \$3,617.3 M
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	33
Jon Christensen, CFA Portfolio Manager + Senior Research Analyst	24
Julie Kutsov Portfolio Manager + Senior Research Analyst	18
Craig Stone Portfolio Manager + Senior Research Analyst	30
Todd Beiley, CFA Senior Research Analyst	20
Julie Biel, CFA Senior Research Analyst	11
Chris Wright, CFA Senior Research Analyst	7
Sean Dixon Research Analyst	10
Adam Xiao, CFA Research Analyst	4
Jordan Greenhouse Senior Portfolio Specialist	22†
James B. May, CFA Portfolio Specialist	31†

Top Five Holdings

As of June 30, 2019

Company	Percent of equity (%)
MSCI	5.9
Aspen Technology	5.6
Teradyne	5.1
Cooper Companies	5.1
Scotts Miracle-Gro	5.1
Total	26.8

†Represents years of industry experience.

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
200 Stocks Quantitative Screens <ul style="list-style-type: none"> High return on capital over a full economic cycle Long and resilient earnings history High return on net operating assets Minimal debt Other Resources <ul style="list-style-type: none"> Research on existing portfolio holdings Meetings with companies Industry reviews Investment conferences Third-party research 	50–60 Stocks Qualitative Analysis <ul style="list-style-type: none"> Evaluate sustainability of business model and assess management's ability to direct capital where it can create further control of its market Financial Analysis <ul style="list-style-type: none"> Evaluate basis for superior profitability, long-term growth potential, and ability to allocate capital appropriately Valuation Analysis <ul style="list-style-type: none"> Determine the current and potential value of the business 	25–35 Stocks Position Weights <ul style="list-style-type: none"> Typically 3%-4% Maximum weight 10% (at market) Sector Tolerances* <ul style="list-style-type: none"> Typically +/- 10% of the Russell 2500™ Index, utilizing Russell sector classifications Non-U.S. Holdings <ul style="list-style-type: none"> Not to exceed 20% (at market) Holding Period <ul style="list-style-type: none"> Typically 3-to-5 years, but is often longer Portfolio turnover is typically 25% to 35% Cash Levels <ul style="list-style-type: none"> Typically will not exceed 10% once a portfolio is fully invested 	Extended Valuation Portfolio Upgrade Diversification Requirements Acquisition Activity Negative Company or Industry Changes

*A consequence of our high-quality investment philosophy is that certain sectors do not meet our financial criteria and offer fewer investable ideas. Our portfolios therefore will likely have persistently low exposure to those segments of the economy (and therefore may cause our sector weights to be outside of the 10% threshold relative to the benchmark). Companies operating in these areas produce consistently low or no profitability, are capital intensive, are heavily indebted, or have overly complex balance sheet structures. These may include large sectors such as Financials (real estate and banking) and Health Care (biotechnology) and also smaller sectors such as Materials & Processing (chemicals, metals and mining), Energy (oil and gas), and Utilities where we will have little to no exposure.

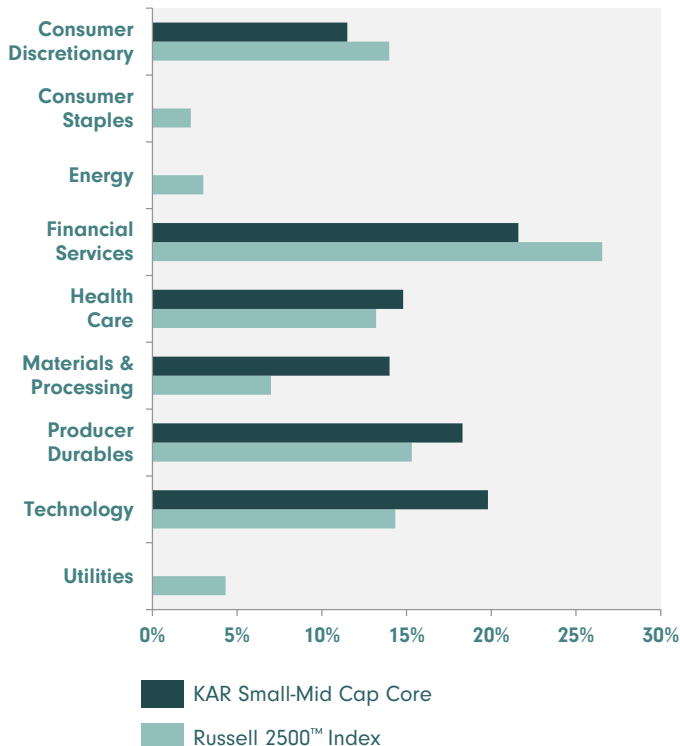
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification

As of June 30, 2019



Portfolio Characteristics

As of June 30, 2019

	KAR Small-Mid Cap Core	Russell 2500™ Index
Quality		
Return on Equity—Past 5 Years	21.0%	12.0%
Total Debt/EBITDA	2.3 x	4.6 x
Earnings Variability—Past 10 Years	41.6%	63.4%
Growth		
Earnings Per Share Growth—Past 5 Years	19.2%	11.9%
Earnings Per Share Growth—Past 10 Years	17.0%	10.1%
Capital Generation—[ROE x (1-Payout)]	17.0%	8.8%
Value		
P/E Ratio—Trailing 12 Months	25.4 x	28.4 x
Dividend Yield	0.8%	1.6%
Free Cash Flow Yield†	3.8%	2.5%
Market Characteristics		
\$ Weighted Average Market Cap—3-Year Avg.	\$7.9 B	\$4.8 B
Largest Market Cap—3-Year Avg.	\$17.5 B	\$19.2 B
Annualized Standard Deviation—Since Inception*	15.0%	18.6%

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 March 31, 2019. Prices are as of June 30, 2019. Excludes financials. *April 1, 1992

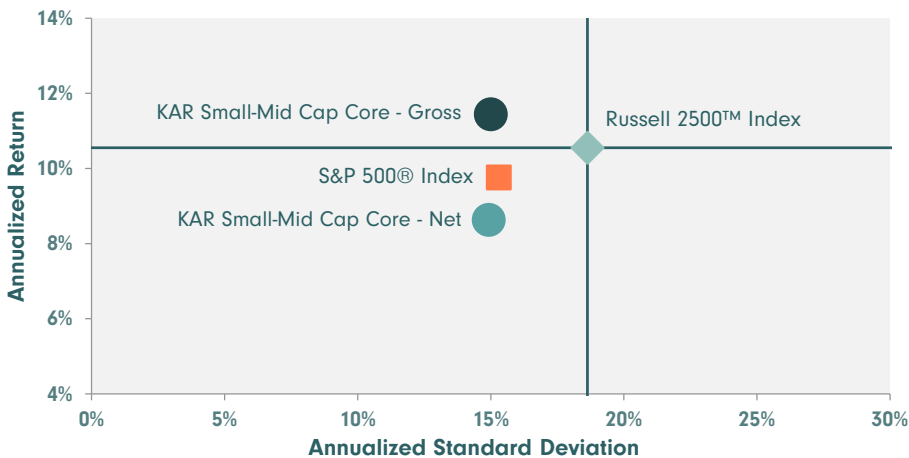
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics.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

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Strong Risk-Adjusted Returns

Inception* to June 30, 2019



Historical Returns

	KAR Small-Mid Cap Core (gross)	KAR Small-Mid Cap Core (net) [‡]	Russell 2500™ Index
Annualized Returns (%)[†]			
As of June 30, 2019			
2 nd Quarter	9.71	8.91	2.96
Year to Date	26.85	25.03	19.25
One Year	14.17	10.82	1.77
Three Years	16.14	12.75	12.34
Five Years	13.44	10.58	7.66
Seven Years	15.20	12.59	12.51
Ten Years	16.07	13.54	14.44
Inception*	11.44	8.63	10.55
Annual Returns (%)			
2018	(5.23)	(8.05)	(10.00)
2017	19.77	16.28	16.81
2016	17.03	13.61	17.59
2015	5.76	4.10	(2.90)
2014	9.25	7.37	7.07
2013	31.04	29.07	36.80
2012	9.25	7.55	17.88
2011	8.43	6.02	(2.51)
2010	20.23	17.70	26.71
2009	31.12	28.86	34.39
2008	(29.90)	(31.33)	(36.79)
2007	0.26	(1.37)	1.38
2006	14.04	11.75	16.17
2005	3.24	0.14	8.11
2004	13.69	10.26	18.29
2003	25.54	21.91	45.51
2002	(17.31)	(19.84)	(17.80)
2001	4.57	1.53	1.22
2000	23.47	19.85	4.27
1999	7.02	3.93	24.14
1998	20.98	17.42	0.38
1997	21.00	17.45	24.36
1996	26.98	23.22	19.03
1995	18.57	15.07	31.70
1994	2.75	(0.26)	(1.05)
1993	20.00	16.54	16.55
1992 [§]	9.65	7.25	11.36

*April 1, 1992

[†]All periods less than one year are total returns and are not annualized. Returns are preliminary.

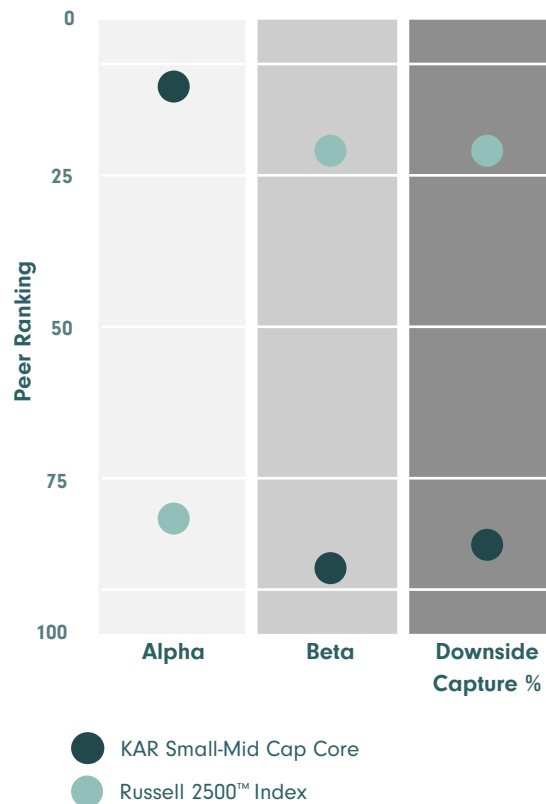
[‡]Net of all fees and expenses. Assumes a 3% annual fee.

[§]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.

Peer Comparison Chart

Ten Years Ending June 30, 2019



Performance Statistics

Inception* to June 30, 2019

	KAR Small-Mid Cap Core	Russell 2500™ Index
Annualized Return	11.44	10.55
Annualized Standard Deviation	15.00	18.63
Alpha	2.91	0.00
Beta	0.72	1.00
Sharpe Ratio	0.60	0.43
R-Squared	79.05	100.00

IMPORTANT RISK CONSIDERATIONS: Equity Securities: The market price of equity securities may be adversely affected by financial market, industry, or issuer specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. **Limited Number of Investments:** Because the fund has a limited number of securities, it may be more susceptible to factors adversely affecting its securities than a less concentrated fund. **Industry/Sector Concentration:** A fund that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated fund.

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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 Wrap 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 Small-Mid Cap Core Wrap Portfolios. Small-Mid Cap Core Wrap 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.

Beginning on January 1, 2006, sub-advisory wrap fee portfolios are also included in composite results. Each sub-advisory relationship is included in the composite as one account. 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. Prior to January 1, 2011, the composite minimum was \$100,000.

The standard wrap fee schedule in effect is 3.00% on total assets. 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. Performance results include the reinvestment of all income. Prior to December 31, 2005, net annual returns are calculated by deducting 1/4th of an assumed maximum annual wrap fee of 3% from the gross

returns on a quarterly basis. Beginning January 1, 2006, net annual returns are calculated using actual fees incurred. If no fee data is provided by wrap sponsors, the maximum annual wrap fee of 3% is used to calculate net of fee performance. Beginning January 1, 2016, net annual returns are calculated by deducting 1/12th of an assumed maximum annual wrap fee of 3% on a monthly basis. Wrap fees include all charges for trading costs, portfolio management, custody and other administrative expenses.

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 of the composite is presented starting December 31, 2012 because prior to January 1, 2010, the composite return was calculated quarterly and 36 monthly returns are not available.

3-Yr Annualized Standard Deviation (%)

	December 31	Composite	Benchmark
2012		15.22	19.24
2013		12.17	15.85
2014		10.13	11.84
2015		12.17	12.59
2016		12.62	13.86
2017		11.16	12.31
2018		13.27	14.30

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Wrap Accounts as % of Composite Assets	Accounts at Year End	Pure Gross Annual Return (%)*	Net Annual Return (%)	Russell 2500™ Index Annual Return (%)	Internal Dispersion
2009	4,010	342	100%	64	31.12	28.86	34.39	0.64
2010	4,729	316	100%	59	20.23	17.70	26.71	0.35
2011	5,232	337	100%	53	8.43	6.02	(2.51)	0.78
2012	6,545	422	100%	44	9.25	7.55	17.88	0.62
2013	7,841	362	100%	39	31.04	29.07	36.80	0.36
2014	7,989	373	100%	35	9.25	7.37	7.07	0.16
2015	8,095	378	100%	30	5.76	4.10	(2.90)	0.19
2016	9,989	369	100%	30	17.03	13.61	17.59	0.38
2017	14,609	518	100%	32	19.77	16.28	16.81	0.26
2018	17,840	618	100%	24	(5.23)	(8.05)	(10.00)	0.17

*Pure gross returns are supplemental to net returns.

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