

## Small-Mid Cap Core Portfolio

Third Quarter 2018 | Managed Accounts

### Portfolio Review

The Small-Mid Cap Core portfolio outperformed the Russell 2500 Index during the third quarter. Strong stock selection in the financial services and materials and processing sectors helped performance, while weak stock selection in consumer discretionary and health care detracted.

Stocks that contributed the most to performance were Aspen Technology and Primerica.

- Aspen continues to generate healthy topline and bottom-line results, with strength in its core offering complemented by solid demand for its new Asset Performance Monitoring suite of products. Additionally, Aspen is seeing some renewed interest from its engineering and construction clients, the segment that has been struggling most with the decline in oil prices. Annual contract value is forecast to accelerate this year beyond the softer growth seen in the last few years.
- Primerica reported a strong quarter, with topline growing by 13% and operating income increasing by 17%. These positive results were generated primarily by continued execution via an increasing sales force, investing in digital capabilities and expanding product offerings. We continue to view Primerica's low-cost distribution as an advantage and remain owners of the business.

Stocks that detracted the most from performance were Wynn Resorts and Bank OZK.

- The Macau casino market has recently experienced heightened levels of competition for VIP players as competitors have increased commissions paid to junket operators and have extended additional credit to players. The result of this competition has been near-term business pressure for Wynn. Management, however, has illustrated that long-term fundamentals of the Macau market remain strong and that the company will not compete on price but will continue to compete by having the best product and service in the market.
- Bank OZK, formerly Bank of the Ozarks, saw its share price decline in the most recent quarter after the company reported 15% annualized loan growth, which, while impressive for most banks, was a further slowdown in growth at Bank OZK. Some investors remain myopically focused on the current pace of loan growth at the bank. However, our investment thesis is anchored to the fact that over long periods of time Bank OZK has been one of the most efficient banks in the country with credit metrics and profitability that are well-above those of its peers. We continue to have positive expectations for Bank OZK's financial performance and remain owners of the business.

### Purchases and Sales

We purchased Elanco Animal health and Charles Rivers Laboratories. We sold our position in Carlisle Companies.

Elanco Animal Health develops and markets products for companion and food animals in the U.S. and internationally. While competition and challenges exist in the animal-health segment, Elanco's market share is expected to rise, as its separation from Eli Lilly produces greater efficiencies and product development. Increased pet ownership and the global demand for protein should also serve as significant tailwinds for years to come. In addition, Elanco has built up a strong R&D team during its time associated with Lilly. This should create a consistent stream of new products that could help improve margins over time.

Charles River Laboratories is an early-stage contract research company that provides drug discovery, non-clinical development, and safety testing services worldwide. Due to the comprehensiveness of its services, Charles River can tailor solutions to customer's needs. This is especially vital for young biotech businesses that are more likely to outsource, given their need for internal investments and focus. Charles River also has been able to conduct an effective M&A strategy over time, with a focus on early-stage companies.

Owning Carlisle over the past few years yielded mixed results: The core business of construction materials delivered as we expected, while some other parts of the business showed disappointing results for various reasons. Overall, Carlisle was a decent investment during our holding period, but we are selling this company to help fund a new purchase.

### Outlook

A flat Treasury yield curve continues to concern investors, the U.S. and China are locked in an ongoing trade spat, and troubles in emerging markets persist. But uncertainty and volatility in markets are to be expected. While we do pay attention to such factors causing concern, we also remain focused on the economic and business fundamentals. The U.S. appears to be one of the pillars of strength in the global economy today, with third-quarter GDP growth projected to be strong and various sectors continuing to expand. We are committed to investing in high-quality businesses that have a sustainable competitive edge. We believe this is the best long-term protection we can provide in today's environment of heightened market and geopolitical uncertainty.

### Portfolio Highlights

**Style:** Small-Mid Cap  
**Sub-Style:** Core  
**Index:** Russell 2500™  
**Portfolio Inception:** 1992  
**Portfolio Assets:** \$2,709.5 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	32
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	23
<b>Craig Stone</b> Portfolio Manager + Senior Research Analyst	29
<b>Todd Beiley, CFA</b> Senior Research Analyst	19
<b>Julie Biel, CFA</b> Senior Research Analyst	10
<b>Julie Kutasov</b> Senior Research Analyst	17
<b>Chris Wright, CFA</b> Senior Research Analyst	8
<b>Sean Dixon</b> Research Analyst	9
<b>Adam Xiao, CFA</b> Research Analyst	3
<b>Jordan Greenhouse</b> Portfolio Specialist	21†

### Top Five Holdings

As of September 30, 2018

Company	Percent of equity (%)
Aspen Technology	5.4
RBC Bearings	4.7
MSCI	4.7
Scotts Miracle-Gro	4.4
Cooper Companies	4.2
<b>Total</b>	<b>23.3</b>

\*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
<b>200 Stocks</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>50–60 Stocks</b>  <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>25–35 Stocks</b>  <b>Position Weights</b> <ul style="list-style-type: none"> <li>Typically 3%-4%</li> <li>Maximum weight 10% (at market)</li> </ul> <b>Sector Tolerances*</b> <ul style="list-style-type: none"> <li>Typically +/- 10% of the Russell 2500™ Index, utilizing Russell sector classifications</li> </ul> <b>Non-U.S. Holdings</b> <ul style="list-style-type: none"> <li>Not to exceed 20% (at market)</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</li> </ul>	<b>Extended Valuation</b>  <b>Portfolio Upgrade</b>  <b>Diversification Requirements</b>  <b>Acquisition Activity</b>  <b>Negative Company or Industry Changes</b>

\*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.

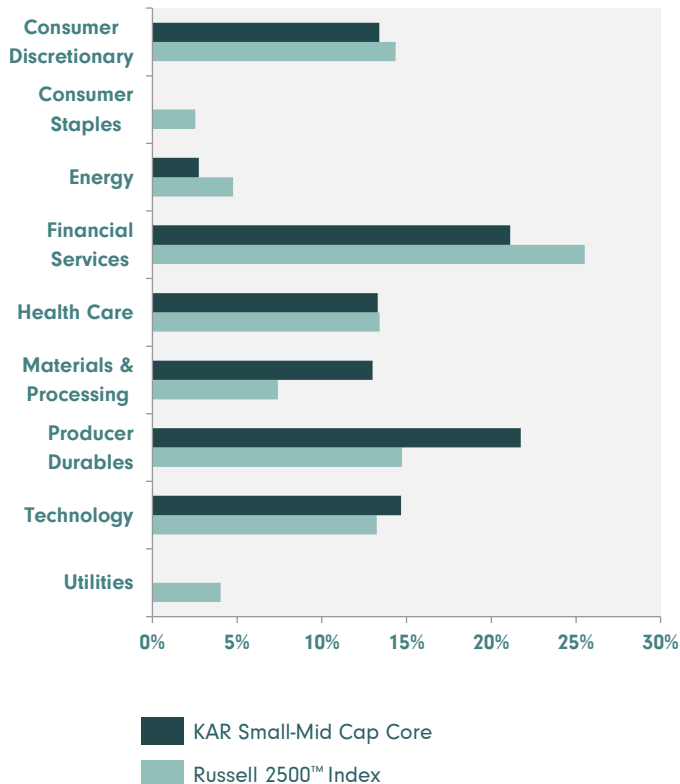
Higher Quality

Stronger, More Consistent Growth

Better Value

## Sector Diversification

As of September 30, 2018



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 September 30, 2018

	KAR Small-Mid Cap Core	Russell 2500™ Index
<b>Quality</b>		
Return on Equity—Past 5 Years	22.4%	11.8%
Total Debt/EBITDA	2.1 x	6.4 x
Earnings Variability—Past 10 Years	37.6%	73.6%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	13.1%	10.6%
Earnings Per Share Growth—Past 10 Years	15.3%	8.8%
Capital Generation—{ROE x (1-Payout)}	17.2%	8.7%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	25.3 x	30.2 x
Dividend Yield	0.9%	1.4%
Free Cash Flow Yield†	3.6%	2.4%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$7.5 B	\$4.5 B
Largest Market Cap—3-Year Avg.	\$18.8 B	\$16.1 B
Annualized Standard Deviation—Since Inception‡	14.5%	18.3%

†Free cash flow data is as of June 30, 2018. Prices are as of September 30, 2018. Excludes financials.

‡April 1, 1992

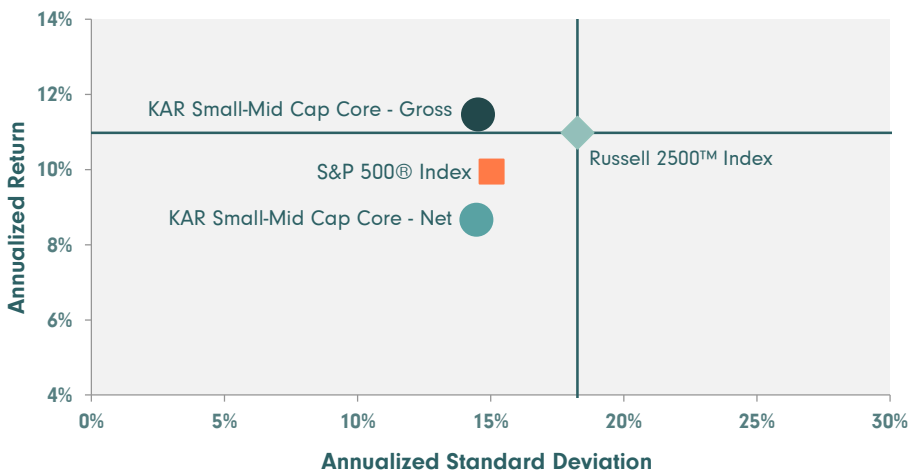
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. 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 September 30, 2018



## 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 September 30, 2018			
3 <sup>rd</sup> Quarter	5.65	4.90	4.70
Year to Date	11.24	8.84	10.41
One Year	20.45	16.99	16.19
Three Years	18.28	14.98	16.13
Five Years	14.45	11.78	11.37
Seven Years	16.54	14.09	16.49
Ten Years	13.66	11.27	12.02
Inception*	11.46	8.66	10.98

	KAR Small-Mid Cap Core (gross)	KAR Small-Mid Cap Core (net) <sup>†</sup>	Russell 2500™ Index
<b>Annual Returns (%)</b>			
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 <sup>§</sup>	9.65	7.25	11.36

\*April 1, 1992

<sup>†</sup>All periods less than one year are total returns and are not annualized. Returns are preliminary.

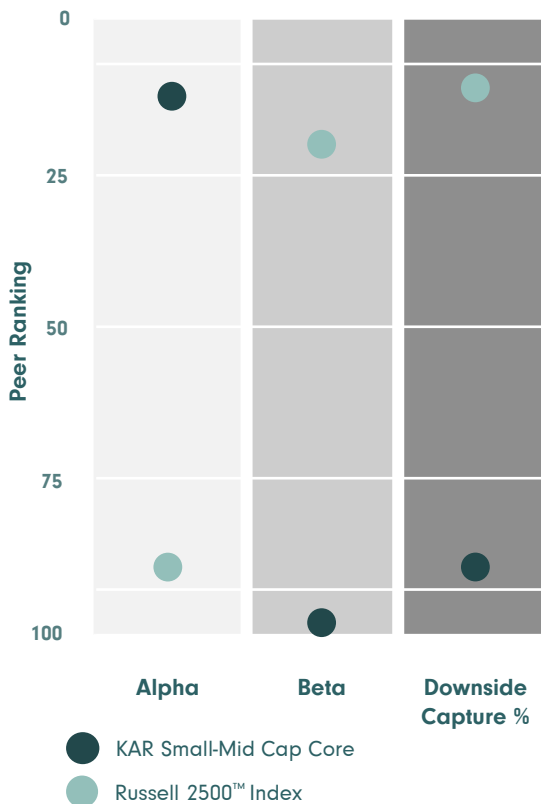
<sup>‡</sup>Net of all fees and expenses. Assumes a 3% annual fee.

<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.

## Peer Comparison Chart

Ten Years Ending September 30, 2018



## Performance Statistics

Inception\* to September 30, 2018

	KAR Small-Mid Cap Core	Russell 2500™ Index
Annualized Return	11.46	10.98
Annualized Standard Deviation	14.53	18.26
Alpha	2.72	0.00
Beta	0.70	1.00
Sharpe Ratio	0.62	0.47
R-Squared	78.24	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, 2017.

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, 2017. 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 1/12<sup>th</sup> 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

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
2008	3,445	309	100%	76	(29.90)	(31.33)	(36.79)	0.29
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	511	100%	32	19.77	16.28	16.81	0.26

\*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.