

## Small Cap Core Portfolio

Second Quarter 2020 | Managed Accounts

### Portfolio Review

The Small Cap Core portfolio delivered positive performance but underperformed the Russell 2000 Index in the second quarter. Poor stock selection and an overweight in producer durables and poor stock selection in consumer discretionary detracted from performance. Performance was helped by strong stock selection in financial services and an underweight in utilities.

The biggest contributors to performance during the quarter were MarketAxess and Manhattan Associates. During the most recent quarter, the MarketAxess Open Trading all-to-all protocol provided liquidity to fixed-income market participants when many market makers reduced liquidity during a period of extreme volatility. As a result, MarketAxess reported outsized market-share gains and the stock appreciated. Manhattan Associates reported solid quarterly results, helped by strong demand for its supply chain software solutions. While the company has retail exposure, it has diversified into other industries beyond traditional retail. As COVID-19 continues to stress supply chains, many customers are seeking more modern and flexible solutions to adapt. Other top contributors included POOLCORP, Old Dominion Freight Line and CDW.

The biggest detractors to performance during the quarter were RLI and Graco. Due to uncertainty around property & casualty business interruption claims related to COVID-19, RLI's stock did not participate as strongly in the market rally seen in the second quarter. Graco's business experienced depressed demand for its products across geographies. However, even under 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 Dril-Quip, WABCO and Atrion.

### Purchases and Sales

During the quarter, we purchased Acushnet Holdings and EMCOR Group and we sold WABCO.

Acushnet Holdings is a performance-focused golf products company. The company designs, develops, manufactures and distributes golf balls, clubs, gear and apparel and is the steward of the iconic Titleist brand. The Titleist brand affords Acushnet a durable and protected competitive position that affords premium pricing and the positive mindshare of dedicated golfers globally that would be very difficult to replicate.

EMCOR Group engages in the provision of electrical and mechanical construction and facilities services. The company and management have demonstrated the capability to compound value long-term through a focus on locally-led project selection, accurate project cost estimation, cost discipline, timely project execution and excellent corporate-level cost allocation. Management keeps the company in the lanes of only owning businesses that deliver highly-skilled trades work on mission-critical applications, allowing each business to win bids partially on the basis of reputation and track record.

WABCO is being acquired by ZF Friedrichshafen AG. We sold our position in light of this transaction to fund other purchases in the portfolio.

### 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.



Manager of the Decade for the last 5 years (2015-19)

### Portfolio Highlights

**Style:** Small Cap  
**Sub-Style:** Core  
**Index:** Russell 2000®  
**Portfolio Inception:** 1992  
**Portfolio Assets:** \$7,771.8 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
<b>Jordan Greenhouse</b> Senior Portfolio Specialist	23†
<b>James B. May, CFA</b> Portfolio Specialist	32†

### Top Five Holdings

As of June 30, 2020

Company	Percent of equity (%)
Teledyne Technologies	7.3
CDW	6.4
Autohome	6.3
POOLCORP	5.6
Primerica	5.1
<b>Total</b>	<b>30.7</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>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>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>Position Weights</b> <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> <b>Sector Tolerances</b> <ul style="list-style-type: none"> <li>Seek broad diversification, but no sector constraints</li> </ul> <b>Non-U.S. Holdings</b> <ul style="list-style-type: none"> <li>Up to 20%</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; review by CIO triggered if over 10%</li> </ul>	<b>Extended Valuation</b> <b>Portfolio Upgrade</b> <b>Acquisition Activity</b> <b>Negative Company or Industry Changes</b>

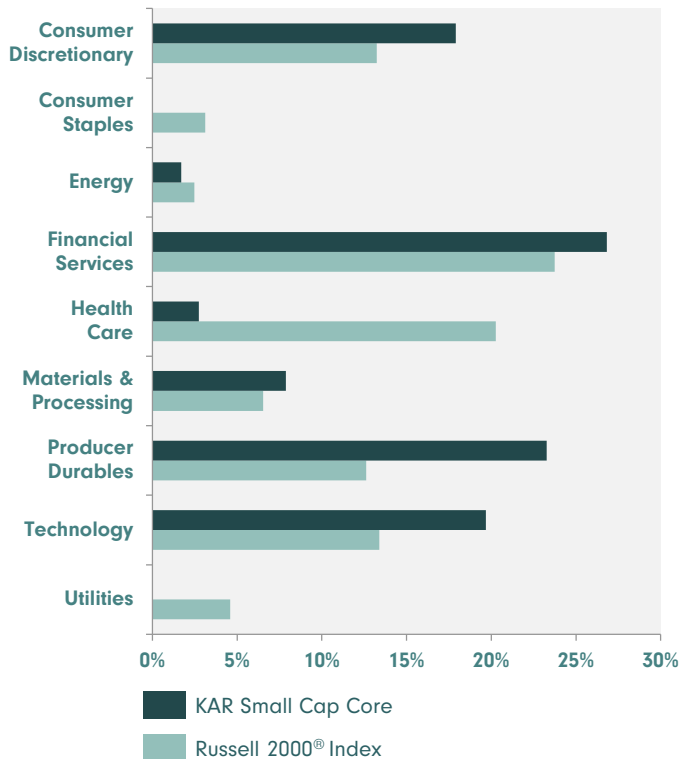
Higher Quality

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 Cap Core	Russell 2000® Index
<b>Quality</b>		
Return on Equity—Past 5 Years	23.1%	8.6%
Total Debt/EBITDA	1.2 x	7.2 x
Earnings Variability—Past 10 Years	20.2%	69.9%
<b>Growth</b>		
Earnings Per Share Growth—Past 10 Years	15.4%	7.5%
Dividend Per Share Growth—Past 10 Years	12.2%	7.7%
Capital Generation—{ROE x (1-Payout)}	16.6%	6.7%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	23.2 x	57.9 x
Dividend Yield	1.3%	1.4%
Free Cash Flow Yield*	3.4%	2.9%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$7.3 B	\$2.3 B
Largest Market Cap—3-Year Avg.	\$14.7 B	\$9.2 B
Annualized Standard Deviation—Since Inception†	16.4%	20.6%

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

†April 1, 1992

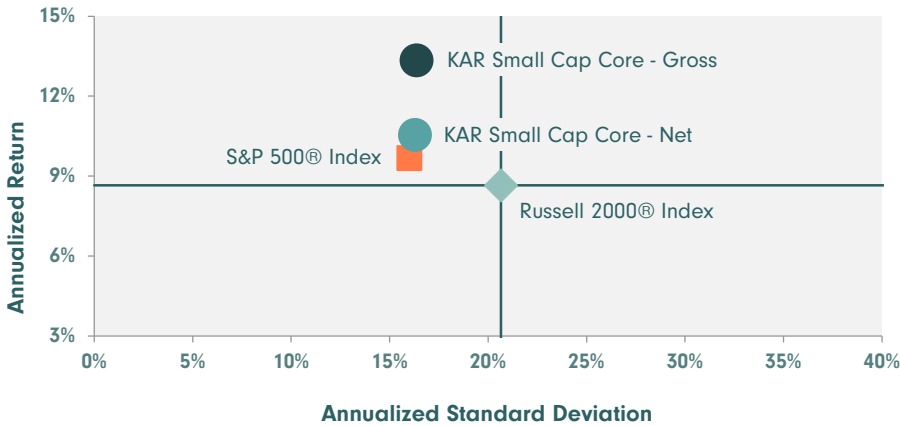
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. 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, 2020



## Historical Returns

	KAR Small Cap Core (gross)	KAR Small Cap Core (net) <sup>†</sup>	Russell 2000 <sup>®</sup> Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of June 30, 2020			
2 <sup>nd</sup> Quarter	18.71	17.87	25.42
Year to Date	(1.84)	(3.32)	(12.98)
One Year	7.33	4.16	(6.63)
Three Years	17.58	14.14	2.01
Five Years	16.60	13.36	4.29
Seven Years	15.81	12.98	7.17
Ten Years	17.08	14.49	10.50
Inception*	13.35	10.55	8.66

Annual Returns (%)	KAR Small Cap Core (gross)	KAR Small Cap Core (net)	Russell 2000 <sup>®</sup> Index
2019	39.05	35.04	25.52
2018	(0.78)	(3.72)	(11.01)
2017	36.07	32.15	14.65
2016	18.55	15.09	21.31
2015	2.09	0.51	(4.41)
2014	7.31	5.57	4.89
2013	30.89	28.76	38.82
2012	13.75	11.80	16.35
2011	9.64	7.75	(4.18)
2010	24.83	22.56	26.85
2009	31.80	29.72	27.17
2008	(28.15)	(29.36)	(33.79)
2007	3.25	1.71	(1.57)
2006	13.46	11.87	18.37
2005	7.87	4.63	4.55
2004	23.07	19.42	18.33
2003	35.02	31.19	47.25
2002	(13.73)	(16.34)	(20.48)
2001	6.82	3.74	2.49
2000	20.98	17.42	(3.02)
1999	7.02	3.93	21.26
1998	20.98	17.42	(2.55)
1997	21.00	17.45	22.36
1996	26.98	23.22	16.49
1995	18.57	15.07	28.45
1994	2.75	(0.26)	(1.82)
1993	20.00	16.54	18.88
1992 <sup>§</sup>	9.65	7.25	10.16

\*April 1, 1992

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

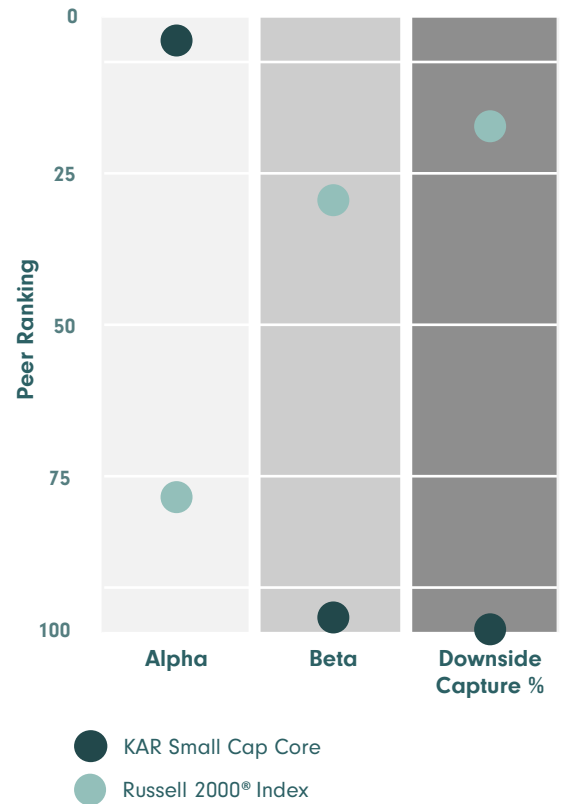
<sup>‡</sup>Net of all fees and expenses. Assumes a 3% annual fee.

<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 Cap Core Universe includes all managers categorized in the small 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, 2020



## Performance Statistics

Inception\* to June 30, 2020

	KAR Small Cap Core	Russell 2000 <sup>®</sup> Index
Annualized Return	13.35	8.66
Annualized Standard Deviation	16.36	20.65
Alpha	5.88	0.00
Beta	0.72	1.00
Sharpe Ratio	0.67	0.30
R-Squared	82.19	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 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 Cap Core Wrap Portfolios. Small Cap Core Wrap Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2000® 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® Index. The Russell 2000® Index is a market capitalization-weighted index 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 October 1995. 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 exceed 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. Pure gross returns do not reflect the deduction of any expenses, including trading costs. Prior to December 31, 2005, net annual returns are calculated by deducting 1/4th of an assumed maximum annual wrap fee of 3% 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		15.37	20.48
2013		11.96	16.68
2014		9.77	13.31
2015		11.15	14.16
2016		12.19	15.99
2017		11.38	14.11
2018		13.94	16.01

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 2000® Index Annual Return (%)	Internal Dispersion
2009	4,010	565	100%	54	31.80	29.72	27.17	0.71
2010	4,729	659	100%	67	24.83	22.56	26.85	0.71
2011	5,232	846	100%	70	9.64	7.75	(4.18)	0.51
2012	6,545	1073	100%	71	13.75	11.80	16.35	0.31
2013	7,841	1336	100%	67	30.89	28.76	38.82	0.45
2014	7,989	1294	100%	70	7.31	5.57	4.89	0.27
2015	8,095	1023	100%	55	2.09	0.51	(4.41)	0.38
2016	9,989	1222	100%	74	18.55	15.09	21.31	0.81
2017	14,609	1818	100%	67	36.07	32.15	14.65	0.50
2018	17,840	1909	100%	85	(0.78)	(3.72)	(11.01)	0.24

\*Pure gross returns are supplemental to net returns.

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