

Small Cap Core Portfolio

Third Quarter 2020 | Managed Accounts

Portfolio Review

The Small Cap Core portfolio outperformed the Russell 2000 Index in the third quarter. Performance was helped by strong stock selection in communication services and an overweight in industrials. An underweight and poor stock selection in consumer discretionary and materials detracted from performance.

The biggest contributors to performance during the quarter were Autohome and POOLCORP. Autohome's stock rose as market participants increasingly anticipate a recovery in China's economy and new car sales activity as the country recovers from the COVID-19 pandemic. The company's competitive position and profitability remain healthy. POOLCORP managed to post first-quarter revenue growth despite the market shift midway through March due to COVID-19. In many states construction was deemed an essential service and allowed to continue despite the stay-at-home orders. This helped the industry and POOLCORP. Many homeowners are increasingly spending or looking to spend on home projects instead of taking vacations. Additionally, given that today only about 20% of the company's business is tied to new construction, higher usage of pools helps the company's business even if recession lingers. Other top contributors included Graco, Toro and Rightmove.

The biggest detractors to performance during the quarter were First Hawaiian Bank and Jack Henry & Associates. First Hawaiian Bank's shares have yet to recover from the sharp sell off at the end of the first quarter due to COVID-19. The ongoing pandemic and strict quarantine restrictions in Hawaii have brought tourism to a standstill and caused a significant uptick in unemployment. With loan losses expected to rise, the bank has been increasing its loss reserves, which caused earnings to decline compared to the previous quarter. While we expect the impact of COVID-19 to remain a meaningful near-term headwind for the Hawaiian economy, we think First Hawaiian Bank's conservative balance sheet will allow it to navigate this tough environment. Jack Henry & Associates revenue growth slowed during the quarter as COVID-19 elongated software implementation times and reduced card processing volumes. COVID is likely to be a headwind to fiscal year 2021 results as well. We view these headwinds as short-term in nature and are encouraged by the company's continued ability to win new accounts away from competitors, which bodes well for future revenue and profit growth. Other bottom contributors included Dril-Quip, RBC Bearings and Primerica.

Purchases and Sales

During the quarter, there were no new purchases. We sold MarketAxess Holdings and Old Dominion Freight Line due to their larger market capitalizations.

Outlook

It will take several years to fully recover from this health crisis, particularly in the hardest hit travel-related areas. But we will recover. A full recovery will be dependent upon the restoration of health confidence brought about by a vaccine becoming widely available or the virus slowly dissipating. However, at some point, taxes will probably be raised materially (regardless of who wins the election) causing future growth to be modest. Earnings growth is likely to continue to recover from the precipitous drop in the second quarter and it should show meaningful improvement over the next two to three years, even in a modest growth environment. 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: \$8,477.7 M
Portfolio Turnover: 25%-35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	34
Todd Beiley, CFA Portfolio Manager + Senior Research Analyst	21
Jon Christensen, CFA Portfolio Manager + Senior Research Analyst	25
Julie Biel, CFA Senior Research Analyst	12
Julie Kutasov Senior Research Analyst	19
Craig Stone Senior Research Analyst	31
Chris Wright, CFA Senior Research Analyst	8
Sean Dixon Research Analyst	11
Adam Xiao, CFA Research Analyst	5
Jordan Greenhouse Senior Client Portfolio Manager	23 [†]
James B. May, CFA Client Portfolio Manager	32 [†]

Top Five Holdings

As of September 30, 2020

Company	Percent of equity (%)
Autohome	7.4
Teledyne Technologies	6.8
POOLCORP	6.5
CDW	6.1
Rightmove	5.3
Total	32.2

[†]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
<p>Quantitative Screens</p> <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 <p>Other Resources</p> <ul style="list-style-type: none"> Research on existing portfolio holdings Meetings with companies Industry reviews Investment conferences Third-party research 	<p>Qualitative Analysis</p> <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 <p>Financial Analysis</p> <ul style="list-style-type: none"> Evaluate basis for superior profitability, long-term growth potential, and ability to allocate capital appropriately <p>Valuation Analysis</p> <ul style="list-style-type: none"> Determine the current and potential value of the business 	<p>Position Weights</p> <ul style="list-style-type: none"> Maximum initial position size is 5% (at cost) Maximum position size is 10% (at market) <p>Sector Tolerances</p> <ul style="list-style-type: none"> Seek broad diversification, but no sector constraints <p>Non-U.S. Holdings</p> <ul style="list-style-type: none"> Up to 20% <p>Holding Period</p> <ul style="list-style-type: none"> Typically 3-to-5 years, but is often longer Portfolio turnover is typically 25% to 35% <p>Cash Levels</p> <ul style="list-style-type: none"> Typically will not exceed 10% once a portfolio is fully invested; review by CIO triggered if over 10% 	<p>Extended Valuation</p> <p>Portfolio Upgrade</p> <p>Acquisition Activity</p> <p>Negative Company or Industry Changes</p>

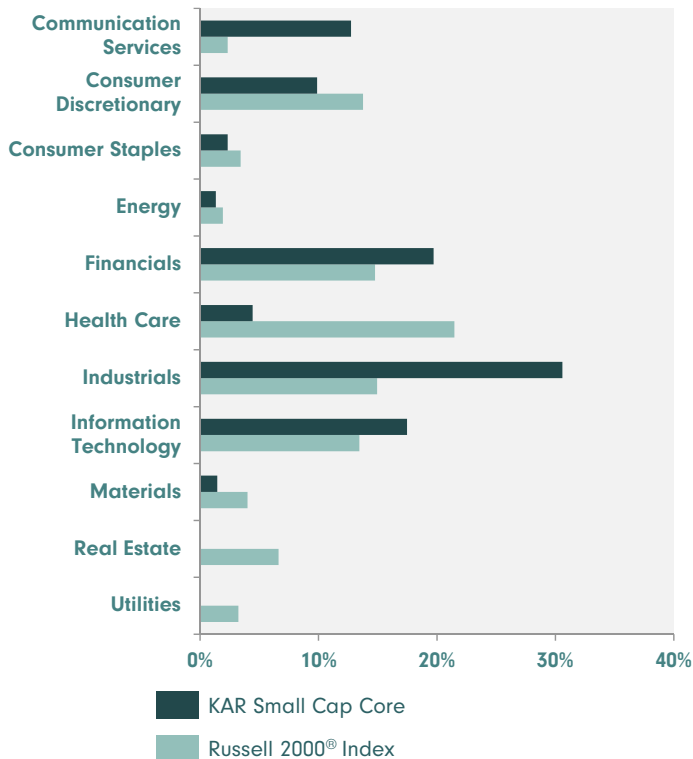
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification

As of September 30, 2020



Portfolio Characteristics

As of September 30, 2020

	KAR Small Cap Core	Russell 2000® Index
Quality		
Return on Equity—Past 5 Years	20.1%	8.6%
Total Debt/EBITDA	1.2 x	8.0 x
Earnings Variability—Past 10 Years	24.8%	75.2%
Growth		
Earnings Per Share Growth—Past 10 Years	12.9%	6.6%
Dividend Per Share Growth—Past 10 Years	10.9%	7.5%
Capital Generation—{ROE x (1-Payout)}	14.1%	6.8%
Value		
P/E Ratio—Trailing 12 Months	26.7 x	121.1 x
Dividend Yield	1.2%	1.3%
Free Cash Flow Yield*	4.0%	3.9%
Market Characteristics		
\$ Weighted Average Market Cap—3-Year Avg.	\$7.5 B	\$2.3 B
Largest Market Cap—3-Year Avg.	\$15.4 B	\$9.2 B
Annualized Standard Deviation—Since Inception†	16.3%	20.6%

*Free cash flow data is as of June 30, 2020. Prices are as of September 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.**

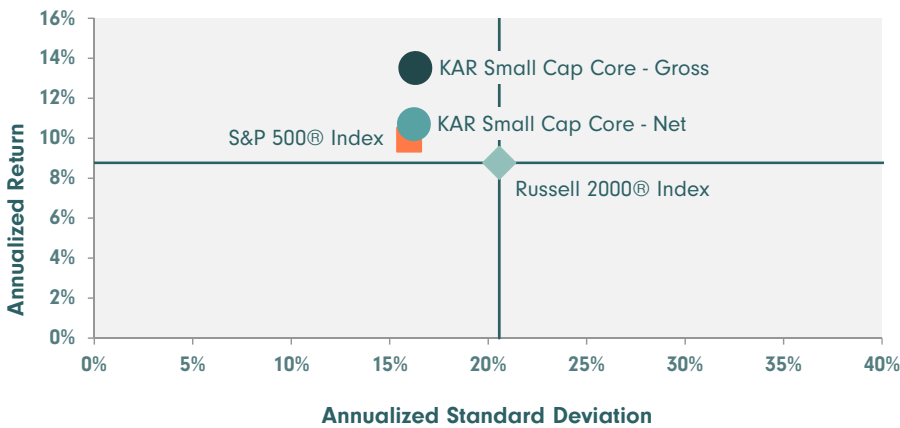
A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. Holdings and weightings are based on a representative portfolio. Individual Investors' holdings may differ slightly. The sector information represented above is based on GICS sector classifications. Data is obtained by FactSet Research Systems and is assumed to be reliable.

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Strong Risk-Adjusted Returns

Inception* to September 30, 2020



Historical Returns

	KAR Small Cap Core (gross)	KAR Small Cap Core (net) [†]	Russell 2000® Index
Annualized Returns (%)[†]			
As of September 30, 2020			
3 rd Quarter	7.25	6.47	4.93
Year to Date	5.27	2.94	(8.69)
One Year	11.18	7.92	0.39
Three Years	17.00	13.58	1.77
Five Years	20.35	16.92	8.00
Seven Years	15.58	12.70	6.42
Ten Years	17.01	14.38	9.85
Inception*	13.51	10.70	8.77

Annual Returns (%)	KAR Small Cap Core (gross)	KAR Small Cap Core (net) [†]	Russell 2000® 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 [§]	9.65	7.25	10.16

*April 1, 1992

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

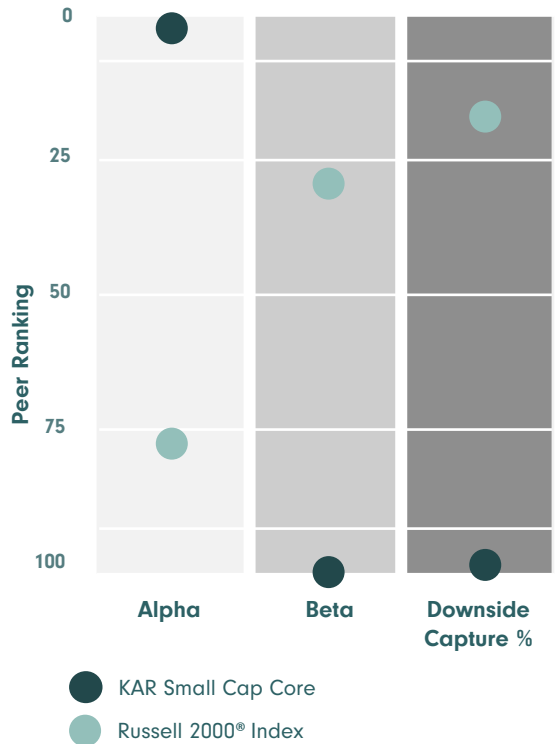
[‡]Net of all fees and expenses. Assumes a 3% annual fee.

[§]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 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 September 30, 2020



Performance Statistics

Inception* to September 30, 2020

	KAR Small Cap Core	Russell 2000® Index
Annualized Return	13.51	8.77
Annualized Standard Deviation	16.30	20.56
Alpha	5.96	0.00
Beta	0.72	1.00
Sharpe Ratio	0.68	0.31
R-Squared	82.17	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. **Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended.

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Disclosure

Year	Composite Pure Gross Return* (%)	Composite Net Return (%)	Russell 2000™ Index Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Percentage of Wrap-Fee Accounts (%)	Number of Accounts	Internal Dispersion (%)	Composite Assets (\$ Millions)	Firm Assets (\$ Millions)
2010	24.83	22.56	26.85	N/A	N/A	100	67	0.71	659	4,729
2011	9.64	7.75	(4.18)	N/A	N/A	100	70	0.51	846	5,232
2012	13.75	11.80	16.35	15.37	20.48	100	71	0.31	1,073	6,545
2013	30.89	28.76	38.82	11.96	16.68	100	67	0.45	1,336	7,841
2014	7.31	5.57	4.89	9.77	13.31	100	70	0.27	1,294	7,989
2015	2.09	0.51	(4.41)	11.15	14.16	100	55	0.38	1,023	8,095
2016	18.55	15.09	21.31	12.19	15.99	100	74	0.81	1,222	9,989
2017	36.07	32.15	14.65	11.38	14.11	100	67	0.50	1,818	14,609
2018	(0.78)	(3.72)	(11.01)	13.94	16.01	100	85	0.24	1,909	17,840
2019	39.05	35.04	25.52	14.65	15.93	100	101	0.31	2,689	25,685

*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.

KAR (as defined below) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. KAR has been independently verified for the period from January 1, 1999 through December 31, 2019.

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, 2019. The verification and performance examination reports are available upon request.

Kayne Anderson Rudnick Investment Management, LLC ("KAR"), 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. KAR 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, which measures the variability of the composite (using pure gross returns) and the benchmark for the 36-month period, is presented starting 2012 because prior to January 1, 2010, the composite return was calculated quarterly and 36 monthly returns are not available.