

## Mid Cap Core Portfolio

First Quarter 2018 | Managed Accounts



### Portfolio Review

The Mid Cap Core portfolio outperformed the Russell Midcap Index during the first quarter. The outperformance was driven by strong stock selection in the health care and financial services sectors. Weak stock selection in consumer discretionary and technology offset some of the gains.

The biggest contributors to performance were Globus Medical and Broadridge Financial Solutions.

- Globus Medical shares rose in the quarter after a surge in organic growth in the fourth quarter of 2017. Gains in market share in the company's core spine market were driven by the ramping up of new sales associates and operational improvements in its Alphatec business.
- Broadridge shares performed strongly following the company's reports of better-than-anticipated operating results and a further improved near- to medium-term outlook driven by organic revenue growth acceleration.

Names that detracted the most from performance were Tractor Supply Company and Monster Beverage.

- Tractor reported a solid end to the year, including growth in same-store sales. The company is facing challenges from tight trucking markets, which is pressuring profitability. While the lower profitability expected in 2018 is disappointing, we view the company's investments in solidifying moats around its business as crucial to protecting its competitive advantages.
- Monster shares fell in the recent quarter due to a temporary slowdown in orders by some distribution partners and losses generated by the company's startup operations in China and India. The slowdown, however, appears to have reversed, and losses in China and India have proven to not be permanent. More importantly, consumer data show that the energy drink category is growing strongly and Monster is growing faster than the category.

### Purchases and Sales

In the first quarter, we purchased AMN Healthcare Services, Lamb Weston Holdings and Verisk Analytics. We completely closed out of Axalta Coating Systems and Intuit.

AMN Healthcare is an established leader in the \$16 billion health care staffing services market and provides clients with access to a vast network of nurses and other professionals. Factors driving demand for the market include the aging population and a shortage of clinicians and physicians. We believe the company's evolution from a traditional staffing business to a health care workforce solutions leader should drive long-term value creation.

Lamb Weston, the biggest U.S. producer of frozen potato products and second-largest globally, sells to multinational chain restaurants and food distributors, among other channels. Lamb Weston benefits from scale advantages in its purchasing and processing of potatoes, and enjoys a certain level of barrier to entry afforded by the industry.

Verisk provides data analytics to help customers manage risk and increase revenue. Verisk's core insurance business is excellent as its proprietary data set allows the company to provide a product that is required for successful underwriting.

We sold our position in Axalta as our confidence in management diminished after the company engaged in two different merger talks that it ended up terminating.

Intuit generated double-digit annual returns over the past 13 years that we've held the stock. This success, however, has led to a growth in the stock's market cap that exceeded the level appropriate for this portfolio, and we sold our position.

### Outlook

We want to underscore that market corrections, even as they are unpredictable, sharp and painful, are necessary to remove excessive speculation in the stock market and to shake out weak holders. We still believe that businesses will be growing their earnings over the next couple of years and that the stock market will ultimately reward this growth with positive returns in the mid- to high-single-digit range. The shape of the yield curve is certainly worth monitoring over the next year or two, and we would like to see it steepen. As always, we will stay focused on investing in high-quality businesses with a sustainable competitive edge.

### Portfolio Highlights

**Style:** Mid Cap  
**Sub-Style:** Core  
**Index:** Russell Midcap®  
**Portfolio Inception:** 2000  
**Portfolio Assets:** \$489.5 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

| Name   | Years of research experience |
|--|------------------------------|
| <b>Douglas S. Foreman, CFA</b><br>Chief Investment Officer                 | 32                           |
| <b>Jon Christensen, CFA</b><br>Portfolio Manager + Senior Research Analyst | 23                           |
| <b>Craig Stone</b><br>Portfolio Manager + Senior Research Analyst          | 29                           |
| <b>Todd Bailey, CFA</b><br>Senior Research Analyst                         | 19                           |
| <b>Julie Kutsov</b><br>Senior Research Analyst                             | 17                           |
| <b>Chris Wright, CFA</b><br>Senior Research Analyst                        | 8                            |
| <b>Julie Biel, CFA</b><br>Research Analyst                                 | 10                           |
| <b>Jordan Greenhouse</b><br>Portfolio Specialist                           | 21*                          |

### Top Five Holdings

As of March 31, 2018

| Company          | Percent of equity (%) |
|------------------|-----------------------|
| Globus Medical   | 5.6                   |
| AMETEK           | 5.6                   |
| Monster Beverage | 5.2                   |
| Zoetis           | 5.1                   |
| Aspen Technology | 4.6                   |
| <b>Total</b>     | <b>26.0</b>           |

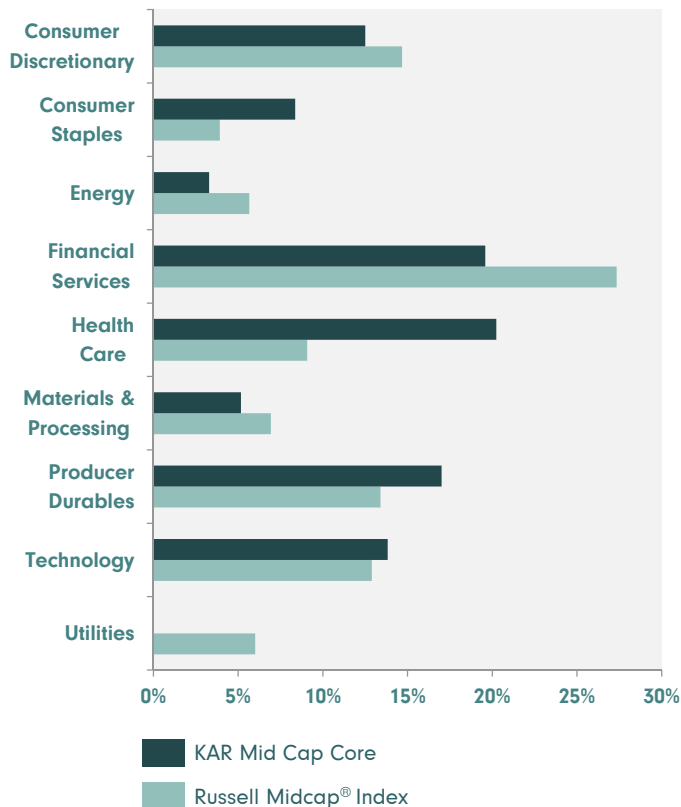
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities. A complete list of holdings and specific securities transactions for the preceding 12 months is available upon request. Holdings are subject to change. Past performance is no guarantee of future results.*

## Investment Process: Discovering Quality

| <b>Development of High-Quality Universe</b>  | <b>Proprietary Fundamental Research</b>   | <b>Portfolio Construction</b>  | <b>Sell Discipline</b>   |
|--|---|--|--|
| <b>200 Stocks</b><br><br><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><br><br><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><br><br><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 Midcap® Index, utilizing Russell sector classifications</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><br><br><b>Portfolio Upgrade</b><br><br><b>Diversification Requirements</b><br><br><b>Acquisition Activity</b><br><br><b>Negative Company or Industry Changes</b> |
| <b>Higher Quality   Stronger, More Consistent Growth   Better Value</b>  |   |  |  |

## Sector Diversification

As of March 31, 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 March 31, 2018

|  | KAR Mid Cap Core | Russell Midcap® Index |
|--|------------------|-----------------------|
| <b>Quality</b>                                 |                  |                       |
| Return on Equity—Past 5 Years                  | 27.3%            | 14.5%                 |
| Total Debt/EBITDA                              | 1.8 x            | 4.1 x                 |
| Earnings Variance—Past 10 Years                | 31.7%            | 59.0%                 |
| <b>Growth</b>                                  |                  |                       |
| Earnings Per Share Growth—Past 5 Years         | 13.9%            | 8.3%                  |
| Earnings Per Share Growth—Past 10 Years        | 16.0%            | 9.1%                  |
| Dividend Per Share Growth—Past 5 Years         | 15.6%            | 9.9%                  |
| Dividend Per Share Growth—Past 10 Years        | 15.0%            | 8.4%                  |
| Capital Generation—{ROE x (1-Payout)}          | 22.2%            | 9.7%                  |
| <b>Value</b>                                   |                  |                       |
| P/E Ratio—Trailing 12 Months                   | 28.1 x           | 24.9 x                |
| Dividend Yield                                 | 0.8%             | 1.7%                  |
| Free Cash Flow Yield†                          | 3.5%             | 3.6%                  |
| <b>Market Characteristics</b>                  |                  |                       |
| \$ Weighted Average Market Cap—3 Year. Avg.    | \$12.0 B         | \$13.3 B              |
| Largest Market Cap—3 Year. Avg.                | \$32.2 B         | \$37.2 B              |
| Annualized Standard Deviation—Since Inception* | 14.1%            | 18.2%                 |

\*January 1, 2000

†Free cash flow data is as of December 31, 2017. Prices are as of March 31, 2018. Excludes financials.

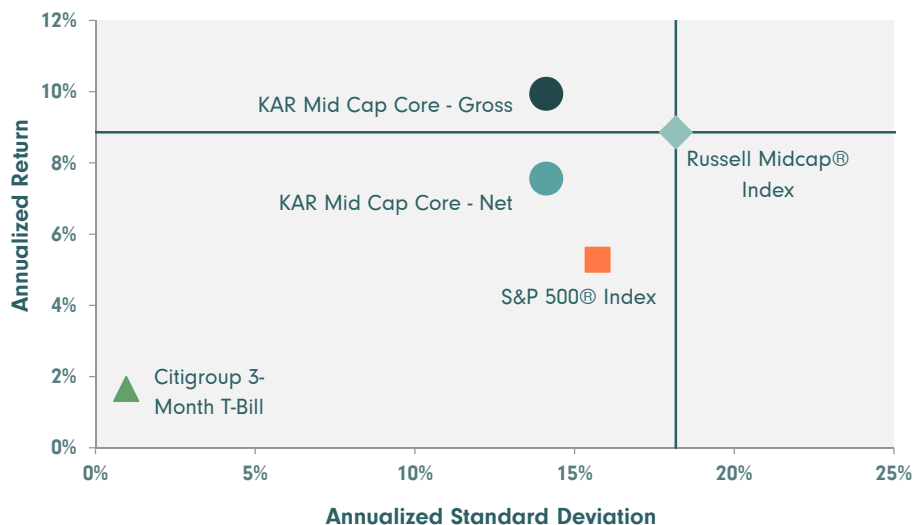
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics.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

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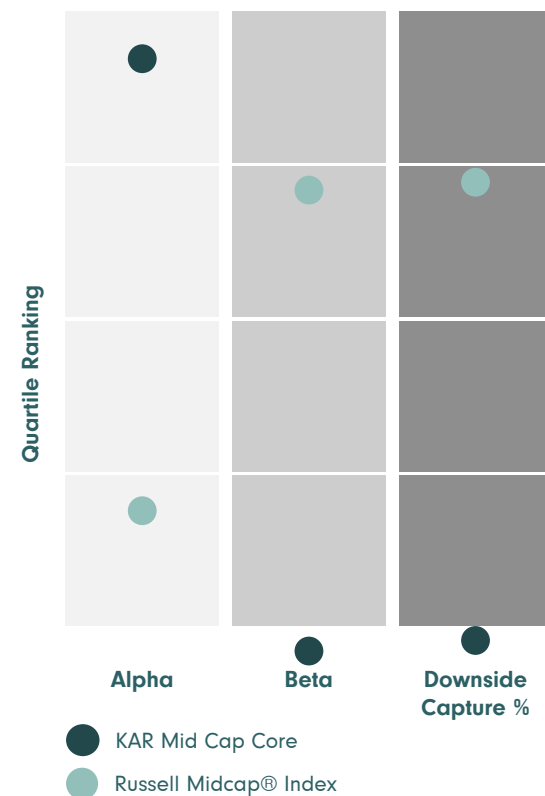
## Strong Risk-Adjusted Returns

Inception\* to March 31, 2018



## Peer Comparison Chart

Ten Years Ending March 31, 2018



## Historical Returns

|   | KAR Mid Cap Core (gross) | KAR Mid Cap Core (net) <sup>‡</sup> | Russell Midcap® Index |
|---|--------------------------|-------------------------------------|-----------------------|
| <b>Annualized Returns (%)<sup>†</sup></b> |                          |                                     |                       |
| As of March 31, 2018                      |                          |                                     |                       |
| 1 <sup>st</sup> Quarter                   | 2.21                     | 1.45                                | (0.46)                |
| One Year                                  | 22.23                    | 18.67                               | 12.20                 |
| Three Years                               | 12.14                    | 9.37                                | 8.01                  |
| Five Years                                | 15.60                    | 13.41                               | 12.09                 |
| Seven Years                               | 14.39                    | 12.38                               | 11.51                 |
| Ten Years                                 | 11.76                    | 9.83                                | 10.21                 |
| Inception*                                | 9.94                     | 7.57                                | 8.86                  |
| <b>Annual Returns (%)</b>                 |                          |                                     |                       |
| 2017                                      | 26.60                    | 22.92                               | 18.52                 |
| 2016                                      | 12.24                    | 8.95                                | 13.80                 |
| 2015                                      | 3.87                     | 2.73                                | (2.44)                |
| 2014                                      | 17.88                    | 16.68                               | 13.22                 |
| 2013                                      | 28.48                    | 27.15                               | 34.76                 |
| 2012                                      | 16.27                    | 14.45                               | 17.28                 |
| 2011                                      | 4.29                     | 2.95                                | (1.55)                |
| 2010                                      | 19.46                    | 17.99                               | 25.48                 |
| 2009                                      | 21.47                    | 19.16                               | 40.48                 |
| 2008                                      | (28.78)                  | (30.29)                             | (41.46)               |
| 2007                                      | 6.19                     | 4.20                                | 5.60                  |
| 2006                                      | 13.10                    | 10.91                               | 15.26                 |
| 2005                                      | 8.79                     | 5.56                                | 12.65                 |
| 2004                                      | 15.29                    | 11.86                               | 20.22                 |
| 2003                                      | 26.67                    | 23.03                               | 40.06                 |
| 2002                                      | (12.62)                  | (15.26)                             | (16.19)               |
| 2001                                      | (2.76)                   | (5.59)                              | (5.62)                |
| 2000                                      | 21.54                    | 17.94                               | 8.25                  |

\*January 1, 2000

<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.

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 Mid Cap Core Universe includes all managers categorized in the 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.

## Performance Statistics

Inception\* to March 31, 2018

|                               | KAR Mid Cap Core | Russell Midcap® Index |
|-------------------------------|------------------|-----------------------|
| Annualized Return             | 9.94             | 8.86                  |
| Annualized Standard Deviation | 14.11            | 18.17                 |
| Alpha                         | 2.82             | 0.00                  |
| Beta                          | 0.71             | 1.00                  |
| Sharpe Ratio                  | 0.59             | 0.40                  |
| R-Squared                     | 84.48            | 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, 2016.

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 Mid Cap Core Wrap Composite has been examined for the period from January 1, 2000 through December 31, 2016. 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 discretionary Mid Cap Core Wrap Portfolios. Mid Cap Core Wrap Portfolios are invested in equity securities with market capitalizations consistent with the Russell Midcap® 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 Midcap® Index. The Russell Midcap® Index is a market capitalization-weighted index of the 800

smallest companies in the Russell 1000® Index, which comprises the 1,000 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 2003. 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 December 31, 2010, 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 1/4 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 1/12<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 measures the variability of the composite (using gross returns) and the benchmark for the 36-month period 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        | 15.34     | 17.44     |
| 2013        | 12.48     | 14.23     |
| 2014        | 10.27     | 10.29     |
| 2015        | 11.94     | 11.00     |
| 2016        | 12.33     | 11.72     |

| 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 Midcap® Index Annual Return (%) | Internal Dispersion |
|------|---------------------------------|--------------------------------------|--|----------------------|-------------------------------|-----------------------|---|---------------------|
| 2007 | 5,392                           | 25                                   | 100%                                   | 7                    | 6.19                          | 4.20                  | 5.60                                    | 0.06                |
| 2008 | 3,445                           | 18                                   | 100%                                   | 9                    | (28.78)                       | (30.29)               | (41.46)                                 | 0.15                |
| 2009 | 4,010                           | 23                                   | 100%                                   | 8                    | 21.47                         | 19.16                 | 40.48                                   | 0.35                |
| 2010 | 4,729                           | 28                                   | 100%                                   | 8                    | 19.46                         | 17.99                 | 25.48                                   | 0.87                |
| 2011 | 5,232                           | 25                                   | 100%                                   | 6                    | 4.29                          | 2.95                  | (1.55)                                  | 0.70                |
| 2012 | 6,545                           | 34                                   | 100%                                   | 7                    | 16.27                         | 14.45                 | 17.28                                   | 0.16                |
| 2013 | 7,841                           | 12                                   | 100%                                   | 6                    | 28.48                         | 27.15                 | 34.76                                   | 0.28                |
| 2014 | 7,989                           | 7                                    | 100%                                   | 5                    | 17.88                         | 16.68                 | 13.22                                   | 0.16                |
| 2015 | 8,095                           | 7                                    | 100%                                   | 5                    | 3.87                          | 2.73                  | (2.44)                                  | 0.00                |
| 2016 | 9,989                           | 9                                    | 100%                                   | 5                    | 12.24                         | 8.95                  | 13.80                                   | 0.14                |

\*Pure gross returns are supplemental to net returns.

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