

## Mid Cap Core Portfolio

Second Quarter 2020 | Managed Accounts



Manager of the  
Decade for the last  
4 years (2016-19)

### Portfolio Review

The Mid Cap Core portfolio underperformed the Russell Midcap Index in the second quarter. Poor stock selection in health care and consumer discretionary detracted from performance. Performance was helped by an underweight in utilities and an underweight and good stock selection in financial services.

The biggest contributors to performance during the quarter were West Pharmaceutical Services and SiteOne Landscape Supply.

- West Pharmaceutical saw its shares rise in the quarter, despite COVID-19 issues, as far fewer clinical trials have been cancelled and the need for the company's delivery products during this crisis created solid performance.
- SiteOne Landscape continued to service its landscape contractor customers in many states as construction was deemed an essential service and allowed to operate despite the stay-at-home orders. Also, in this environment, many homeowners focused on home improvement projects instead of vacations.
- Other top contributors included Brooks Automation, Nordson and Equifax.

The biggest detractors from the portfolio were AMN Healthcare Services and Elanco Animal Health.

- AMN's business was negatively impacted by COVID-19. As expected, travel nurse demand was particularly high to address COVID-19 cases in hospitals. Elective procedures ground to a halt and with it, demand for other AMN positions declined dramatically.
- Elanco saw its shares fall as the onset of COVID-19 temporarily impacted companion animal veterinary visits, which dampened demand for some of its pharmaceuticals.
- Other bottom contributors included Ross Stores, Dolby Laboratories and Graco.

### Purchases and Sales

During the quarter, we purchased Dolby Laboratories and we sold Graco.

- Dolby designs high-quality audio and visual technology. Its technology optimizes both the visual and auditory experience for both consumer and business applications. Over decades, Dolby has been able to establish a brand for excellence and it has done so by investing heavily in both marketing and research and development to stay relevant and in front of major changes in standards and technology. As such, original equipment manufacturers, phone manufacturers and streaming services have all come to expect a certain standard of excellence from Dolby with a brand name that is well supported.
- We sold Graco to fund a new portfolio investment. The shares held up well during the COVID-19 downturn and subsequent recovery.

### 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.

### Portfolio Highlights

**Style:** Mid Cap  
**Sub-Style:** Core  
**Index:** Russell Midcap®  
**Portfolio Inception:** 2000  
**Portfolio Assets:** \$1,196.0 M  
**Portfolio Turnover:** 25%-35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	34
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	25
<b>Craig Stone</b> Portfolio Manager + Senior Research Analyst	31
<b>Todd Bailey, CFA</b> Senior Research Analyst	21
<b>Julie Biel, CFA</b> Senior Research Analyst	12
<b>Julie Kutasov</b> Senior Research Analyst	19
<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 (%)
West Pharmaceutical Services	5.6
SiteOne Landscape Supply	5.4
AMETEK	5.2
Brooks Automation	4.7
Globus Medical	4.4
<b>Total</b>	<b>25.3</b>

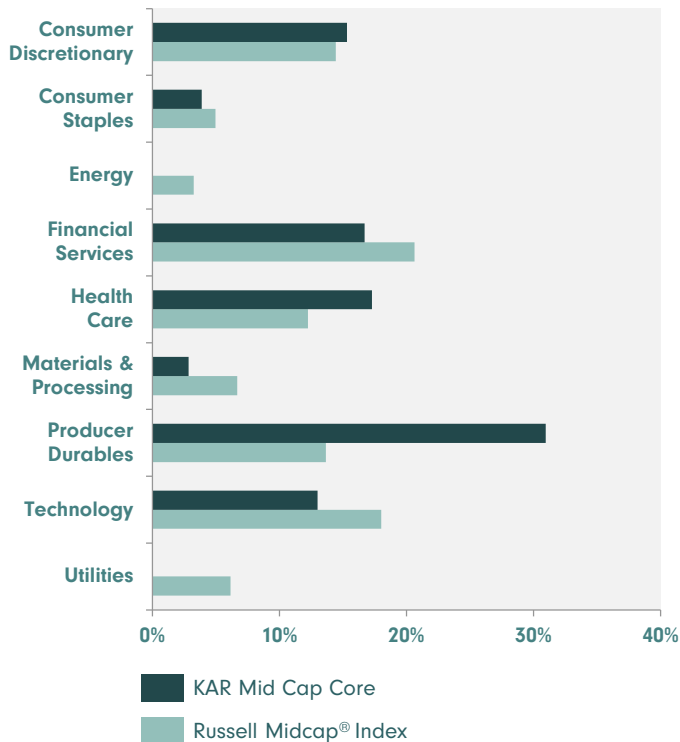
*\*Represents years of industry experience. This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should 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

<b>Development of High-Quality Universe</b>	<b>Proprietary Fundamental Research</b>	<b>Portfolio Construction</b>	<b>Sell Discipline</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>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>
<b>Higher Quality   Stronger, More Consistent Growth   Better Value</b>			

## 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 Mid Cap Core	Russell Midcap Index
<b>Quality</b>		
Return on Equity—Past 5 Years	22.4%	14.8%
Total Debt/EBITDA	1.9 x	7.4 x
Earnings Variability—Past 10 Years	33.7%	55.2%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	14.4%	9.9%
Earnings Per Share Growth—Past 10 Years	11.7%	9.9%
Dividend Per Share Growth—Past 5 Years	14.6%	8.9%
Dividend Per Share Growth—Past 10 Years	16.5%	12.1%
Capital Generation—{ROE x (1-Payout)}	16.9%	10.1%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	31.6 x	29.6 x
Dividend Yield	0.7%	1.7%
Free Cash Flow Yield*	3.0%	3.5%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$13.2 B	\$15.3 B
Largest Market Cap—3-Year Avg.	\$41.4 B	\$49.8 B
Annualized Standard Deviation—Since Inception†	15.5%	19.7%

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

†January 1, 2000

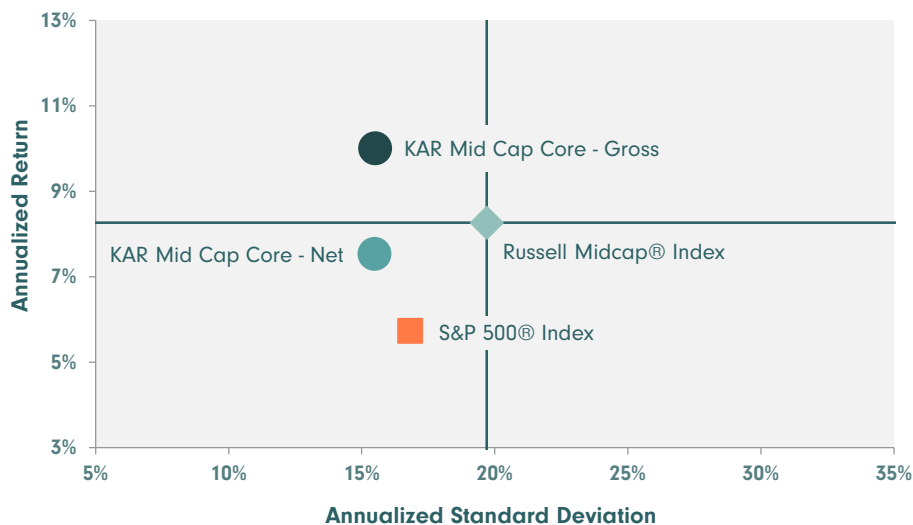
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics.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

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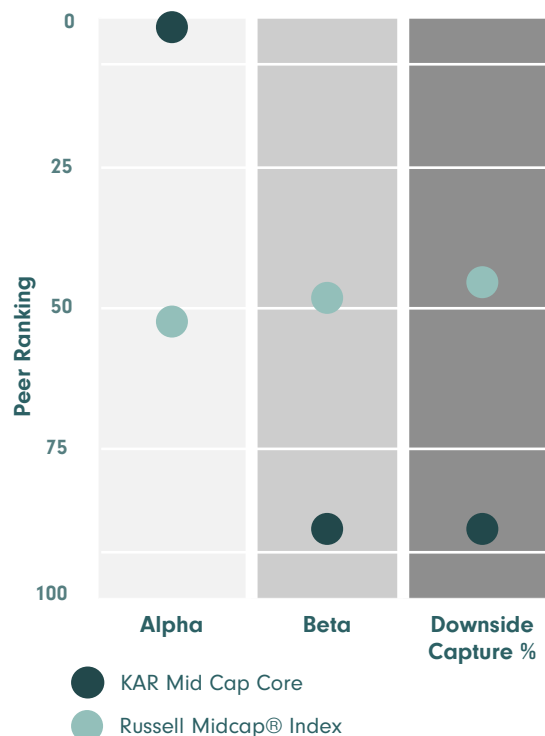
## Strong Risk-Adjusted Returns

Inception\* to June 30, 2020



## Peer Comparison Chart

Ten Years Ending June 30, 2020



## 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 June 30, 2020			
2 <sup>nd</sup> Quarter	22.36	21.50	24.61
Year to Date	(0.30)	(1.79)	(9.13)
One Year	8.85	5.65	(2.24)
Three Years	13.69	10.36	5.79
Five Years	12.24	9.14	6.76
Seven Years	14.43	11.85	9.40
Ten Years	15.54	13.25	12.35
Inception*	10.01	7.54	8.27
<b>Annual Returns (%)</b>			
2019	32.71	28.87	30.54
2018	(3.24)	(6.11)	(9.06)
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 June 30, 2020

	KAR Mid Cap Core	Russell Midcap® Index
Annualized Return	10.01	8.27
Annualized Standard Deviation	15.50	19.70
Alpha	3.07	0.00
Beta	0.74	1.00
Sharpe Ratio	0.54	0.34
R-Squared	87.79	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

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 Mid Cap Core Wrap Composite has been examined for the period from January 1, 2000 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 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. 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 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
2017	10.79	10.51
2018	11.37	12.15

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
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)	N/A
2016	9,989	9	100%	5	12.24	8.95	13.80	0.14
2017	14,609	9	100%	<5	26.60	22.92	18.52	N/A
2018	17,840	15	100%	6	(3.24)	(6.11)	(9.06)	N/A

\*Pure gross returns are supplemental to net returns.

The Russell Midcap® Index and Russell 1000® Index are trademark/service marks of Frank Russell Company. Russell® is a trademark of Frank Russell Company.