

Small Cap Sustainable Growth Portfolio

Second Quarter 2019 | Managed Accounts



Portfolio Review

The Small Cap Sustainable Growth portfolio easily topped the Russell 2000 Growth Index during the second quarter. Performance primarily was driven by strong stock selection and an overweight in health care with stock selection in consumer discretionary making a solid contribution as well. The portfolio's overweight in technology offset gains as did stock selection in materials & processing.

The biggest contributors to performance during the quarter were National Research and Fox Factory Holding.

- National Research reported solid results this quarter with double-digit earnings growth. Importantly, the company is seeing the fruits of its efforts to upsell to its existing customer base. This is an efficient way to drive growth longer term and should support strong profitability.
- Fox Factory's business continues to perform well as the business reported strong revenue growth in each of its segments. As illustrated by the company's fundamental performance, we believe the business continues to be supported by a strong brand and seeks to drive ongoing growth through the market segment seeking premium and higher performance products.

The biggest detractors from the portfolio were Autohome and NVE.

- Weak auto sales in China, trade conflicts and disruption related to a new emissions standard led to a decline in Autohome's shares in the second quarter.
- NVE reported a disappointing product sales quarter. The company's largest customer has seen softer sales of pacemakers, which are an ideal application for NVE's technology. As we expect the growth of pacemakers to continue in the U.S. as the population continues to age, we expect these sales to return. Additionally, we believe the company is well-positioned in other markets, such as bio-safety and automotive, to capitalize on further growth opportunities. While it is challenging to know when these opportunities will yield more material sales, the company's core profitability remains well above peers and management's capital allocation remains conservative.

Purchases and Sales

During the quarter, we purchased Avalara. There were no complete sales from the portfolio.

Avalara is the leader in Software as a Service (SaaS) sales tax determination and returns filing. The company's software is used to automate the calculation, collection and remittance of sales tax, use tax, excise tax and VAT (value add tax). The process of identifying the correct local applicable tax specific to both the location and item is unique to Avalara and requires frequent updates in order to ensure compliance. Avalara is attacking a large addressable market with relatively few competitors who can match the depth of its offering and ease of use. The business model is one that we believe should generate strong profitability over the long term.

Outlook

Corporate growth rates in the U.S. grew modestly in the first quarter and we still believe S&P 500 earnings can advance in the mid single-digit range in 2019. Investors weren't rewarded for outstanding earnings growth in 2018 (+20% growth) with the S&P 500 declining over 4%. Corporate margins have not fallen apart in 2019 and this has caused stock returns to catch up to actual earnings growth. Returns from here will be driven by prospects for continued earnings growth into 2020.

Portfolio Highlights

Style: Small Cap
Sub-Style: Growth
Index: Russell 2000® Growth
Portfolio Inception: 1998
Portfolio Assets: \$7,102.0 M
Portfolio Turnover: 25%-35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	33
Todd Bailey, CFA Portfolio Manager + Senior Research Analyst	20
Jon Christensen, CFA Portfolio Manager + Senior Research Analyst	24
Julie Biel, CFA Senior Research Analyst	11
Julie Kutasov Senior Research Analyst	18
Craig Stone Senior Research Analyst	30
Chris Wright, CFA Senior Research Analyst	7
Sean Dixon Research Analyst	10
Adam Xiao, CFA Research Analyst	4
Jordan Greenhouse Senior Portfolio Specialist	22†
James B. May, CFA Portfolio Specialist	31†

Top Five Holdings

As of June 30, 2019

Company	Percent of equity (%)
Fox Factory	7.5
Autohome	7.1
Auto Trader	6.1
Paycom Software	5.8
Copart	5.0
Total	31.5

†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
200 Stocks Quantitative Screens <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 Other Resources <ul style="list-style-type: none"> Research on existing portfolio holdings Meetings with companies Industry reviews Investment conferences Third-party research 	50–60 Stocks Qualitative Analysis <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 Financial Analysis <ul style="list-style-type: none"> Evaluate basis for superior profitability, long-term growth potential, and ability to allocate capital appropriately Valuation Analysis <ul style="list-style-type: none"> Determine the current and potential value of the business 	20–35 Stocks Position Weights <ul style="list-style-type: none"> Typically 3%-4% Maximum weight 10% (at market) Sector Tolerances* <ul style="list-style-type: none"> Typically +/- 10% of the Russell 2000® Growth Index, utilizing Russell sector classifications Non-U.S. Holdings <ul style="list-style-type: none"> Not to exceed 20% (at market) Holding Period <ul style="list-style-type: none"> Typically 3-to-5 years, but is often longer Portfolio turnover is typically 25% to 35% Cash Levels <ul style="list-style-type: none"> Typically will not exceed 10% once a portfolio is fully invested 	Extended Valuation Portfolio Upgrade Diversification Requirements Acquisition Activity Negative Company or Industry Changes

*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 Health Care (biotechnology) and also smaller sectors such as Materials & Processing (chemicals, metals and mining), Energy (oil and gas), Financials (real estate and banking), and Utilities where we will have little to no exposure.

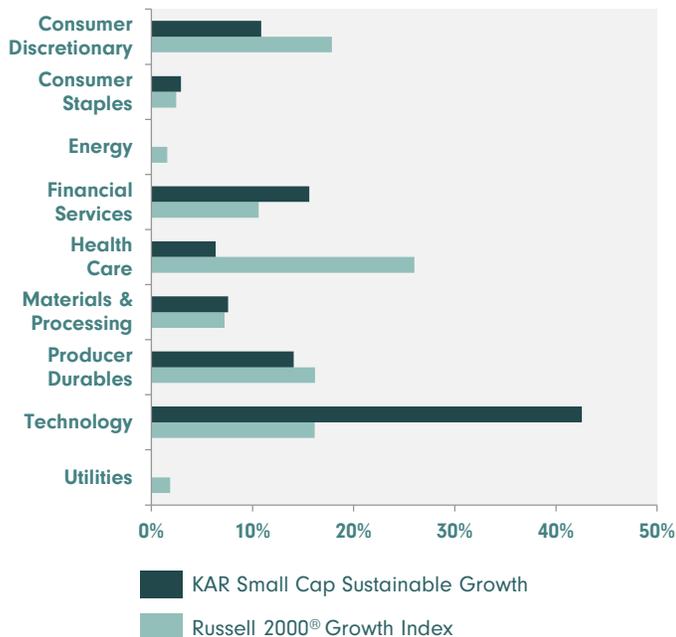
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification†

As of June 30, 2019



†The large underweight in the KAR portfolio relative to the Russell 2000 Growth Index in the health-care sector is due to the classification of the diverse business models held within our portfolio by the Russell sector classification system that is used. Many of these businesses within the technology sector are categorized to other non-technology sectors by other index classification systems beginning in the third quarter 2018 (i.e., GICS added a Communication Services sector beginning in 3Q 2018 that reduced this overweight as many of the companies currently held moved to this new sector).

Portfolio Characteristics

As of June 30, 2019

	KAR Small Cap Sustainable Growth	Russell 2000® Growth Index
Quality		
Return on Equity—Past 5 Years	24.1%	12.4%
Total Debt/EBITDA	0.7 x	4.4 x
Earnings Variability—Past 10 Years	26.0%	71.8%
Growth		
Earnings Per Share Growth—Past 10 Years	12.4%	8.9%
Capital Generation—{ROE x (1-Payout)}	19.7%	10.5%
Value		
P/E Ratio—Trailing 12 Months	35.0 x	59.8 x
Free Cash Flow Yield‡	2.2%	1.3%
Market Characteristics		
\$ Weighted Average Market Cap—3-Year Avg.	\$4.6 B	\$2.5 B
Largest Market Cap—3-Year Avg.	\$12.4 B	\$9.2 B
Annualized Standard Deviation—Since Inception§	19.9%	24.3%

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.

‡Free cash flow data is as of March 31, 2019. Prices are as of June 30, 2019. Excludes financials. §January 1, 1998

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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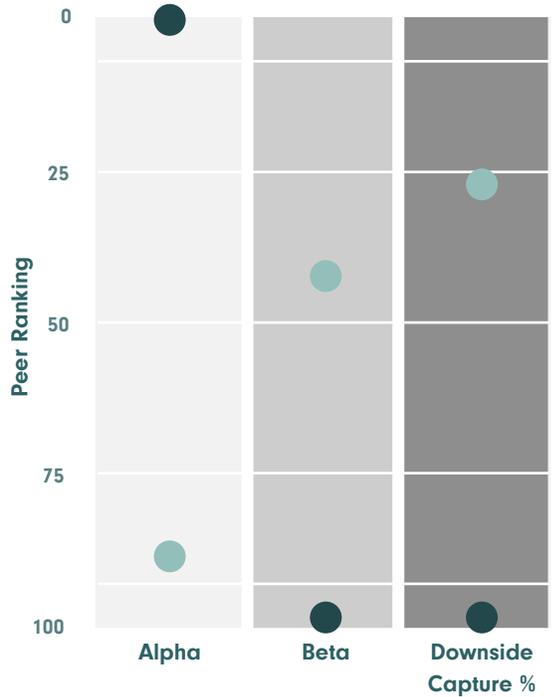
Strong Risk-Adjusted Returns

Inception* to June 30, 2019



Peer Comparison Chart

Ten Years Ending June 30, 2019



Historical Returns

	KAR Small Cap Sustainable Growth (gross)	KAR Small Cap Sustainable Growth (net) [†]	Russell 2000 [®] Growth Index
Annualized Returns (%)[†]			
As of June 30, 2019			
2 nd Quarter	7.56	6.77	2.75
Year to Date	30.96	29.09	20.36
One Year	18.02	14.57	(0.49)
Three Years	34.12	30.24	14.69
Five Years	23.82	20.61	8.63
Seven Years	23.04	20.06	12.87
Ten Years	22.08	19.18	14.41
Inception*	12.11	9.31	6.68

Annual Returns (%)	KAR Small Cap Sustainable Growth	Russell 2000 [®] Growth Index
2018	12.54	9.24 (9.31)
2017	41.79	37.72
2016	26.59	22.92
2015	1.91	(0.07) (1.38)
2014	5.16	3.19
2013	40.55	37.73
2012	12.38	10.05
2011	18.59	15.50 (2.91)
2010	15.44	13.07
2009	39.32	36.77
2008	(33.73)	(34.93) (38.54)
2007	(0.61)	(2.14)
2006	15.47	13.12
2005	2.71	(0.39)
2004	13.42	10.02
2003	39.90	35.88
2002	(23.82)	(26.14) (30.26)
2001	0.48	(2.42) (9.23)
2000	6.28	3.13 (22.43)
1999	31.19	27.42
1998	3.33	0.20

*January 1, 1998

[†]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.

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 Growth Universe includes all managers categorized in the small cap growth 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.

- KAR Small Cap Sustainable Growth
- Russell 2000[®] Growth Index

Performance Statistics

Inception* to June 30, 2019

	KAR Small Cap Sustainable Growth	Russell 2000 [®] Growth Index
Annualized Return	12.11	6.68
Annualized Standard Deviation	19.95	24.29
Alpha	6.29	0.00
Beta	0.73	1.00
Sharpe Ratio	0.51	0.19
R-Squared	78.47	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 Sustainable Growth 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 Sustainable Growth Wrap Portfolios. Small Cap Sustainable Growth Wrap Portfolios are invested in equity securities with market capitalizations in line with the Russell 2000® Growth 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® Growth Index. The Russell 2000® Growth Index is a market capitalization-weighted index of growth-oriented stocks 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 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 1/4th 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 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		15.36	21.01
2013		11.96	17.52
2014		11.97	14.02
2015		13.80	15.16
2016		14.67	16.91
2017		12.94	14.80
2018		14.68	16.69

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® Growth Index Annual Return (%)	Internal Dispersion
2009	4,010	77	100%	13	39.32	36.77	34.47	1.11
2010	4,729	63	100%	12	15.44	13.07	29.09	0.55
2011	5,232	12	100%	13	18.59	15.50	(2.91)	1.04
2012	6,545	31	100%	32	12.38	10.05	14.59	0.98
2013	7,841	23	100%	26	40.55	37.73	43.30	0.58
2014	7,989	20	100%	23	5.16	3.19	5.60	0.30
2015	8,095	36	100%	24	1.91	(0.07)	(1.38)	0.25
2016	9,989	53	100%	24	26.59	22.92	11.32	0.38
2017	14,609	119	100%	26	41.79	37.72	22.17	0.41
2018	17,840	269	100%	48	12.54	9.24	(9.31)	0.52

*Pure gross returns are supplemental to net returns.

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