

## All Cap Sustainable Growth Portfolio

Second Quarter 2017

### Portfolio Review

The All Cap Sustainable Growth portfolio outperformed the Russell 3000 Growth Index during the second quarter. The portfolio benefited from strong stock selection in the information technology and consumer discretionary sectors, while negative stock selection in the financials sector and an overweight in energy detracted from performance.

Holdings that contributed the most to performance during the quarter were Alibaba Group and Autohome. Alibaba's marketplaces have huge network effects and the company is fostering the ecosystem with investments in payments and logistics partnerships. Like Amazon, Alibaba can leverage its computing architecture for Alicloud, a cloud computing offering that should turn profitable in the next two years. The stock moved higher throughout the second quarter, helped in part by first quarter earnings where revenue growth hit 60%, as Taobao's app engagement efforts intersected with what the company called "pent-up consumerism." The cherry on top was the early-June investor meeting where Alibaba laid out fiscal year 2018 growth projection of 45%-49% versus a 35% estimate. Despite a slowdown in car sales volumes in China, Autohome's most recent quarterly sales results showed robust growth, which speaks to the secular shift of ad budgets from offline to online media. As the new management team rids the company of the new car transaction business, we are seeing the underlying profitability of the core business begin to re-emerge.

Holdings that contributed the least to performance were Ross Stores and Pioneer Natural Resources Company. Ross' off-priced business model grew in popularity rapidly in the most recent recession as customers traded-down. Somewhat surprisingly, those customers remained sticky, enticed by the savings and the treasure hunt in-store experience. While business fundamentals have not yet deteriorated, investors are fleeing the stock with expectations that it is only a matter of time before brick-and-mortar retail woes spread to the off-priced channel. We acknowledge that department store share gains will be more difficult from here but still believe Ross offers a differentiated retail experience that is, for now, delivering solid operating results. Pioneer Natural Resources amassed valuable, contiguous acreage in the Midland Basin which, with modern fracking and horizontal drilling techniques, has become one of the most prolific and lowest-cost basins in the U.S. With upwards of eight billion barrels of oil equivalent in reserves, Pioneer has decades of inventory to drill and has one of the strongest balance sheets in the energy complex with investment grade debt and an industry-low debt-to-equity ratio. Pioneer is positioned to weather downturns, while retaining financial flexibility to grow rapidly when commodities return to levels that produce acceptable return on investment.

### Outlook

Even in a mediocre GDP outlook environment, corporate earnings continue to look very solid over the next 6-12 months. As a result, stocks should continue to generate positive returns (although we may experience a correction along the way) for the foreseeable future. Despite the yield curve flattening materially, it is still not inverted and the Federal Reserve may feel less pressure to continue with another rate increase in the second half of the year. A meaningful increase in the price of crude oil, or major progress by the Trump Administration on tax reform and/or an infrastructure bill, could cause longer-term bond yields to rise over the next 6-12 months. This would give the Fed more wiggle room with short-term interest rates than what is currently available. The key takeaway for clients in this environment is to remember to focus on their real, longer-term objectives and to not get caught up in the day-to-day vagaries of the stock market.

### Purchases and Sales

New Purchases	Complete Sales
Appian	Bristol-Meyers Squibb
Floor & Décor Holdings	Oceaneering International
Okta	Discovery Communications

### Portfolio Highlights

Style: All Cap  
 Sub-Style: Growth  
 Index: Russell 3000® Growth  
 Portfolio Assets: \$121.6 M  
 Portfolio Turnover: 25%-35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer + Portfolio Manager	31
<b>Todd Beiley, CFA</b> Senior Research Analyst	18
<b>Jon Christensen, CFA</b> Senior Research Analyst	22
<b>Julie Kutasov</b> Senior Research Analyst	16
<b>Richard Sherry</b> Senior Research Analyst	19
<b>Craig Stone</b> Senior Research Analyst	28
<b>Chris Wright, CFA</b> Senior Research Analyst	7
<b>Chris Armbruster, CFA</b> Research Analyst	12
<b>Chris Benway, CFA</b> Research Analyst	8
<b>Julie Biel, CFA</b> Research Analyst	9
<b>Kevin Ikeda</b> Research Analyst	6

### Top Five Holdings

As of June 30, 2017

Company	Percent of equity (%)
Facebook	5.6
Alibaba Group	3.3
Monster Beverage	2.9
Amazon.com	2.6
Amphenol	2.3
<b>Total</b>	<b>16.8</b>

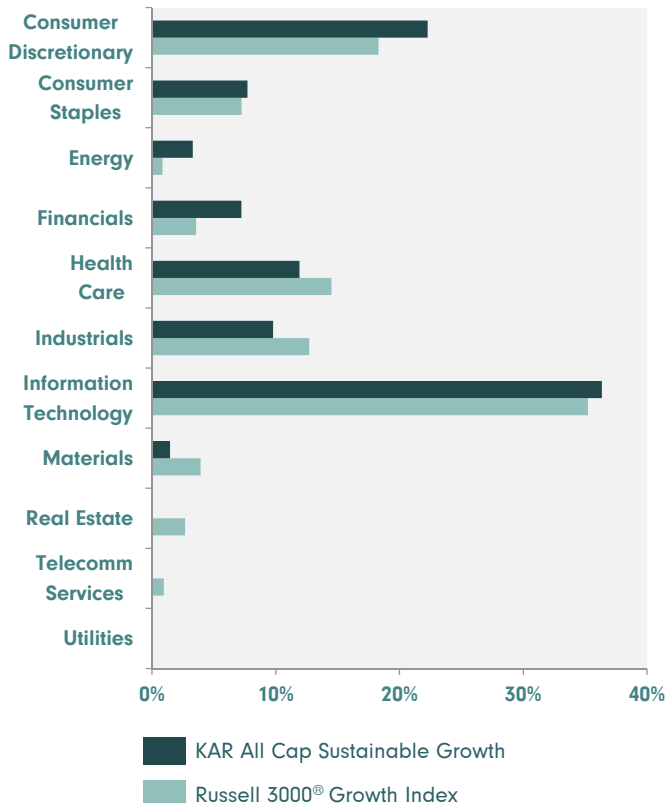
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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>300 Stocks</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>100–120 Stocks</b> <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>80–100 Stocks</b> <b>Position Weights</b> <ul style="list-style-type: none"> <li>Average position size is typically 2%</li> <li>Max initial position size is 5% (cost)</li> <li>Max position size is 10% (market)</li> </ul> <b>Sector Tolerances</b> <ul style="list-style-type: none"> <li>+/- 10% of the sector weights of the Russell 3000® Growth Index</li> </ul> <b>Holding Period</b> <ul style="list-style-type: none"> <li>Typically 3-to-5 years</li> <li>Portfolio turnover is typically 25% to 35%</li> </ul> <b>Cash Levels</b> <ul style="list-style-type: none"> <li>Fully Invested</li> <li>Max cash position is 10%</li> </ul>	<b>Extended Valuation</b> <b>Portfolio Upgrade</b> <b>Diversification Requirements</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, 2017



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.

## Portfolio Characteristics

As of June 30, 2017

	KAR All Cap Sustainable Growth	Russell 3000® Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	22.2%	21.3%
Total Debt/EBITDA	2.5 x	2.5 x
Earnings Variance—Past 10 Years	40.3%	42.8%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	14.6%	10.4%
Earnings Per Share Growth—Past 10 Years	13.8%	12.8%
Capital Generation—{ROE x (1-Payout)}	17.7%	14.6%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	43.2 x	28.0 x
P/E-to-10-Year Growth	3.1 x	2.2 x
Free Cash Flow Yield*	3.1%	4.4%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap	\$95.0 B	\$175.7 B
Largest Market Cap	\$634.8 B	\$750.9 B

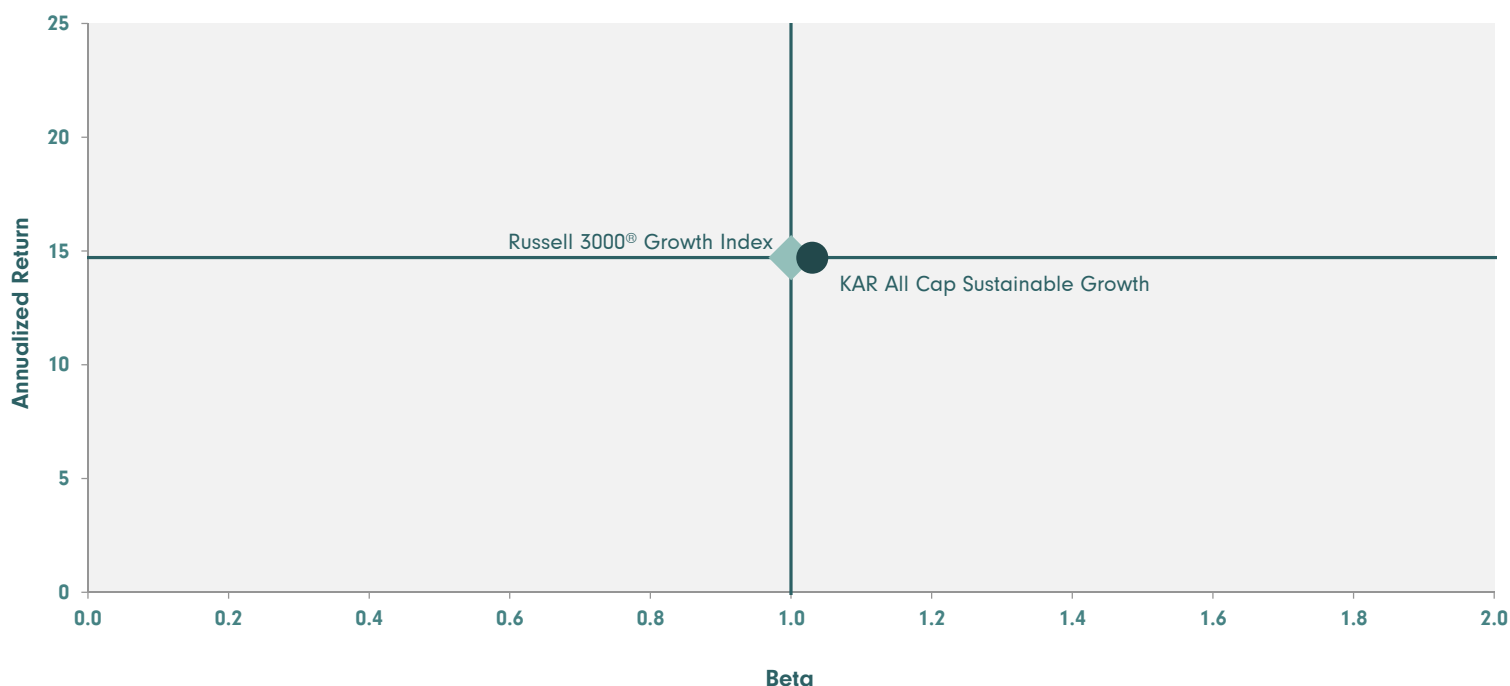
\*Free cash flow data is as of March 31, 2017. Prices are as of June 30, 2017. Excludes financials. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. Past performance is no guarantee of future results.

# All Cap Sustainable Growth Portfolio

Second Quarter 2017

## Risk-Return Analysis

Inception\* to June 30, 2017



## Historical Returns

	KAR All Cap Sustainable Growth (gross)	KAR All Cap Sustainable Growth (net) <sup>‡</sup>	Russell 3000® Growth Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of June 30, 2017			
2 <sup>nd</sup> Quarter	8.17	7.98	4.65
Year to Date	18.45	18.05	13.69
One Year	24.16	23.31	20.72
Three Years	13.36	12.58	10.83
Five Years	15.30	14.51	15.20
Inception*	14.70	13.91	14.71
<b>Annual Returns (%)</b>			
2016	5.88	5.15	7.39
2015	7.41	6.67	5.09
2014	9.48	8.70	12.44
2013	32.17	31.27	34.23
2012 <sup>§</sup>	7.87	7.17	8.59

## Performance Statistics

Inception\* to June 30, 2017

	KAR All Cap Sustainable Growth	Russell 3000® Growth Index
Annualized Return	14.70	14.71
Annualized Standard Deviation	11.58	10.54
Beta	1.03	1.00
Sharpe Ratio	7	1.39
R-Squared	88.81	100.00

\*February 1, 2012

<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 0.70% annual fee.

<sup>§</sup>Performance calculations are for eleven months ended December 31, 2012.

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. Data is obtained from FactSet Research Systems and is assumed to be reliable. Past performance is no guarantee of future results.

## All Cap Sustainable Growth Portfolio

Second Quarter 2017

### 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, 2015. The verification reports are available upon request.

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. Verification does not ensure the accuracy of any specific composite presentation.

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 as all fully discretionary institutional and pooled All Cap Sustainable Growth Portfolios. All Cap Sustainable Growth Portfolios are invested in equity securities with market capitalizations

consistent with the Russell 3000® 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 3000® Growth Index. The Russell 3000® Growth Index is a market capitalization-weighted index of growth-oriented stocks of the 3,000 largest 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 February 2012. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

The standard management fee schedule currently in effect is as follows: 0.70% for the first \$10 million; 0.55% on the next \$25 million; 0.45% on the next \$50 million; 0.35% on the balance. Actual management fees charged may vary depending on applicable fee schedules and portfolio size, among other things. Additional information may be found in Part 2A 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. Returns are presented gross of management fees and withholding taxes and net of transaction fees and include the reinvestment of all income. Gross returns

will be reduced by investment management fees and other expenses that may be incurred in the management of the account. Model net returns have been calculated by deducting 1/12<sup>th</sup> of the highest tier of the standard management fee schedule in effect for the respective period from the gross composite returns on a monthly basis.

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 or for time periods less than one year, no dispersion measure is presented. The three-year annualized ex-post standard deviation, which measures the variability of the composite (using gross returns) and the benchmark for the 36-month period, is not presented for periods prior to 2015 because 36 monthly composite returns are not available. 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 ended at the following dates:

3-Yr Annualized Standard Deviation (%)

December 31	Composite	Benchmark
2015	12.34	10.95
2016	13.13	11.50

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 3000® Growth Index Annual Return (%)	Internal Dispersion
2012*	6,545	67	12	7.87	7.17	8.59	N/A
2013	7,841	65	10	32.17	31.27	34.23	0.37
2014	7,989	89	10	9.48	8.70	12.44	0.37
2015	8,095	92	9	7.41	6.67	5.09	N/A
2016	9,989	97	10	5.88	5.15	7.39	0.10

\*Performance calculations are for the eleven months ended December 31, 2012.

The Russell 3000® Growth Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.