

## All Cap Sustainable Growth Portfolio

Fourth Quarter 2016

### Portfolio Review

The All Cap Sustainable Growth Portfolio underperformed the Russell 3000 Growth Index during the fourth quarter and for 2016 overall. In the quarter, market performance was primarily driven by specific sectors and style biases. Sectors that previously were underperforming, such as financials, industrials and materials, all had very strong quarters. Also, deep value strategies strongly outperformed growth and core strategies. Given that we are bottom-up stock-pickers with a quality bias, our strategy underperformed during the quarter but we would expect to do so when the market is being driven by such specific factors.

For the quarter, the portfolio benefited from strong stock selection and an underweight in the health care sector and stock selection in the industrials sectors, while negative stock selection in the information technology and consumer discretionary sectors detracted from performance.

Holdings that contributed the most to performance during the quarter were Netflix and Omega Flex. Netflix embarked on two bold growth initiatives in recent years with the build-out of international infrastructure and a massive investment in original content. So far, both look like home runs. The company's unmatched scale gives it the data and the financial firepower to deliver better content and led to another better than expected earnings report.

Omega Flex outperformed in the quarter due to improving residential construction prospects. We continue to believe that the Omega's solid competitive position, in a niche market, will allow the company to capitalize on a strengthening construction environment.

Holdings that contributed the least to performance were Facebook and Shutterstock. Facebook continues to grow advertising revenue and take share in the online digital marketing space. The company delivers an unprecedented global reach of 20% of the earth's population to advertisers in a very measureable (ROI) way. Monetization of this audience has barely scratched the surface of its long-term potential. However, Facebook was both a crowded, defensive long, as well as a perceived loser from the election, and thus was used as a source of funds for purchases of more Trump-sensitive names in the quarter.

Softness in Shutterstock's most recent quarterly results was due to changes the company made to some of its subscription plans, in addition to distractions caused by the upgrade of their technology infrastructure.

### Outlook

As we peer into 2017, we believe there is more than a usual amount of economic uncertainty. President-elect Trump has no public office track record for us to assess and judge how effective he will be in getting changes accomplished. It does seem highly likely that some form of corporate and personal tax reform, partial ACA repeal, increased infrastructure spending and less regulatory burden for many businesses will occur over the next two years. However, the timing of these changes are unclear. If these events were to occur, we believe the economy should accelerate and grow in the 2.5% to 3.5% range for the next couple of years. We also believe that the S&P 500 earnings-per-share growth should pick up from the low single-digit range to the mid-to-high single-digit growth range as economic growth increases over the next year.

### Purchases and Sales

| New Purchases   | Complete Sales     |
|-----------------|--------------------|
| Bank of America | Amgen              |
| Union Pacific   | Estee Lauder       |
|                 | Gilead Sciences    |
|                 | Palo Alto Networks |
|                 | UFP Technologies   |

### Portfolio Highlights

**Style:** All Cap  
**Sub-Style:** Growth  
**Index:** Russell 3000® Growth  
**Portfolio Assets:** \$104.2 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

| Name   | Years of research experience |
|--|------------------------------|
| <b>Douglas S. Foreman, CFA</b><br>Chief Investment Officer + Portfolio Manager | 30                           |
| <b>Todd Bailey, CFA</b><br>Senior Research Analyst                             | 17                           |
| <b>Jon Christensen, CFA</b><br>Senior Research Analyst                         | 21                           |
| <b>Julie Kutasov</b><br>Senior Research Analyst                                | 15                           |
| <b>Richard Sherry</b><br>Senior Research Analyst                               | 17                           |
| <b>Craig Stone</b><br>Senior Research Analyst                                  | 27                           |
| <b>Chris Wright, CFA</b><br>Senior Research Analyst                            | 6                            |
| <b>Chris Armbruster, CFA</b><br>Research Analyst                               | 11                           |
| <b>Chris Benway, CFA</b><br>Research Analyst                                   | 7                            |
| <b>Julie Biel, CFA</b><br>Research Analyst                                     | 8                            |

### Top Five Holdings

As of December 31, 2016

| Company               | Percent of equity (%) |
|-----------------------|-----------------------|
| Facebook              | 5.1                   |
| Monster Beverage      | 2.6                   |
| Amphenol              | 2.5                   |
| Alibaba Group Holding | 2.5                   |
| Amazon                | 2.4                   |
| <b>Total</b>          | <b>15.1</b>           |

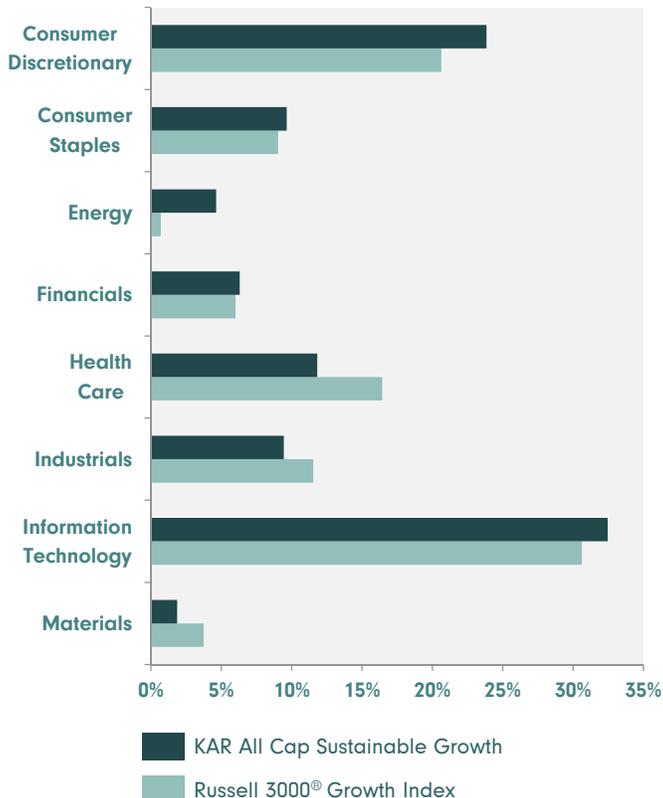
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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. 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><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>100–120 Stocks</b><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>80–100 Stocks</b><br><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><br><b>Portfolio Upgrade</b><br><b>Diversification Requirements</b><br><b>Acquisition Activity</b><br><b>Negative Company or Industry Changes</b> |
| <b>Higher Quality   Stronger, More Consistent Growth   Better Value</b>  |   |  |  |

## Sector Diversification

As of December 31, 2016



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 December 31, 2016

|   | KAR All Cap Sustainable Growth | Russell 3000® Growth Index |
|---|--------------------------------|----------------------------|
| <b>Quality</b>                          |                                |                            |
| Return on Equity—Past 5 Years           | 21.3%                          | 21.9%                      |
| Total Debt/EBITDA                       | 1.8 x                          | 2.4 x                      |
| Earnings Variance—Past 10 Years         | 41.0%                          | 43.0%                      |
| <b>Growth</b>                           |                                |                            |
| Earnings Per Share Growth—Past 5 Years  | 13.7%                          | 13.6%                      |
| Earnings Per Share Growth—Past 10 Years | 12.8%                          | 12.0%                      |
| Capital Generation—{ROE x (1-Payout)}   | 16.7%                          | 14.9%                      |
| <b>Value</b>                            |                                |                            |
| P/E Ratio—Trailing 12 Months            | 36.6 x                         | 25.0 x                     |
| P/E-to-10-Year Growth                   | 2.8 x                          | 2.1 x                      |
| Free Cash Flow Yield*                   | 3.4%                           | 5.1%                       |
| <b>Market Characteristics</b>           |                                |                            |
| \$ Weighted Average Market Cap          | \$72.9 B                       | \$141.7 B                  |
| Largest Market Cap                      | \$536.0 B                      | \$634.4 B                  |

\*Free cash flow data is as of September 30, 2016. Prices are as of December 31, 2016.

Excludes financials.

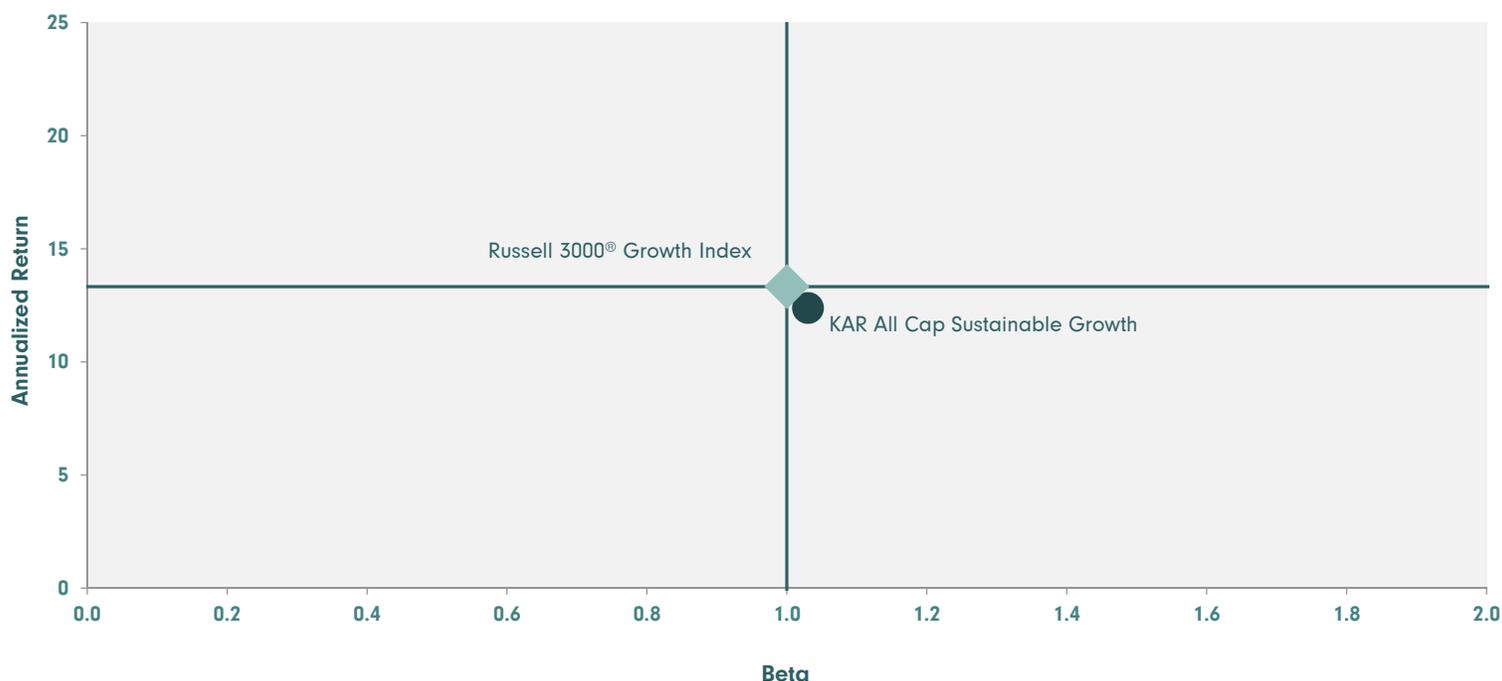
Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. Past performance is no guarantee of future results.

# All Cap Sustainable Growth Portfolio

Fourth Quarter 2016

## Risk-Return Analysis

Inception\* to December 31, 2016



## Historical Returns

|   | KAR All Cap Sustainable Growth (gross) | KAR All Cap Sustainable Growth (net) <sup>‡</sup> | Russell 3000 <sup>®</sup> Growth Index |
|---|--|---|--|
| <b>Annualized Returns (%)<sup>†</sup></b> |  |   |  |
| As of December 31, 2016                   |  |   |  |
| 4 <sup>th</sup> Quarter                   | (1.95)                                 | (2.12)  | 1.20                                   |
| One Year                                  | 5.87                                   | 5.13  | 7.39                                   |
| Two Years                                 | 6.63                                   | 5.90  | 6.24                                   |
| Three Years                               | 7.57                                   | 6.83  | 8.27                                   |
| Four Years                                | 13.26                                  | 12.47   | 14.24                                  |
| Inception*                                | 12.38                                  | 11.60   | 13.33                                  |
| <b>Annual Returns (%)</b>                 |  |   |  |
| 2016                                      | 5.87                                   | 5.13  | 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 December 31, 2016

|                               | KAR All Cap Sustainable Growth | Russell 3000 <sup>®</sup> Growth Index |
|-------------------------------|--------------------------------|--|
| Annualized Return             | 12.38                          | 13.33                                  |
| Annualized Standard Deviation | 11.93                          | 10.92                                  |
| Beta                          | 1.03                           | 1.00                                   |
| Sharpe Ratio                  | 1.04                           | 1.22                                   |
| R-Squared                     | 89.24                          | 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

Fourth Quarter 2016

### 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, 2014. 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, Ltd., 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 1/4th of the highest tier of the standard management fee schedule in effect for the respective period from the gross composite returns on a quarterly 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 of the composite is not presented because this composite inceptioned on February 1, 2012; 36 monthly returns are not available.

#### 3-Yr Annualized Standard Deviation (%)

| December 31 | Composite | Benchmark |
|-------------|-----------|-----------|
| 2015        | 12.34     | 10.95     |

| 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                 |

\*2012 performance numbers in this table reflect the product inception date of February 1, 2012 through 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.