

## International Small Cap Portfolio

Fourth Quarter 2016

### Market Review

The MSCI ACWI ex. U.S. Small Cap Index declined 3.52% in the fourth quarter, but increased 3.91% for the year. The fourth-quarter decline was driven by the strong appreciation of the U.S. dollar. After depreciating for the first nine months of 2016, the dollar started to strengthen early in the fourth quarter. These gains accelerated after the U.S. presidential election, which was clearly the major market-moving event of the quarter.

The surprise election of Donald Trump sent shockwaves throughout the financial markets in the final two months of 2016. After falling sharply initially, major developed equity markets rallied in the ensuing months. Interest rates increased globally, the dollar rose and bonds fell. Markets quickly went from the fear of the unknown in a Trump presidency to anticipation of the economic benefits of a pro-growth Trump agenda in the U.S.

Energy and materials were the strongest sectors by a wide margin in 2016, marking a sharp reversal from the prior two years where these stocks dramatically underperformed. In general, this led to strong performance in countries where commodities play a large role in the economy, such as Australia, Canada, Brazil and South Africa. The decline of the British pound in the wake of the other major market moving geopolitical event of 2016—the surprise decision by the U.K. to leave the European Union (Brexit)—hurt the performance of European stocks in U.S. dollar terms. Japanese small cap stocks had relatively strong performance.

### Portfolio Overview

The International Small Cap portfolio outperformed the MSCI ACWI ex. U.S. Small Cap Index by a significant margin in the fourth quarter, and for the year. After a challenging 2015, the portfolio had a strong 2016, with many of our worst performing stocks last year ranking among our top performers this year.

Tegma Gestão Logística, an automotive logistics company in Brazil, is the most glaring example. With Brazil's economy falling apart in 2015, Tegma was by far our worst-performing stock. As the Brazilian economy showed signs of stabilization in 2016, Tegma shares returned 99% in U.S. dollar terms. ARA Asset Management, Euroz Limited, Lumax International, KPX Chemical and Transpaco were examples of other significant detractors from performance last year that were among our top performers in 2016.

An exception to this trend would be Autohome, which performed poorly in 2015 and again in 2016. The issues that have plagued Autohome over the last 18 months have nothing to do with the performance of the core advertising and lead-generation businesses, which have continued to perform admirably. The stock has struggled due to an ill-fated (and money losing) venture into direct car-selling and a subsequent change in ownership and management. As we begin 2017, we are optimistic about the prospects for Autohome. The new management team has been making positive changes, the most important of which is the decision to close the new car transaction business. We believe that as the costs associated with this business go away, the underlying strength of the core business will shine through. Over the next year, we expect higher profit margins and substantial earnings growth, which is likely to lead to a higher earnings multiple as well. Thus, it remains one of our largest holdings.

### Portfolio Positioning

As always, our portfolio is built on a bottom-up basis. We aim to own great businesses trading at attractive valuations, with the quality of the underlying business being the most important consideration. The online property portal business is one of the best, if not the best, business model we have encountered. Recently, concerns about the possibility of declining real estate prices has led to attractive valuations in the property portal stocks, and we have substantial holdings in the leading property portal in the U.K. (Rightmove), Germany (Scout24) and Australia (REA). We believe that these businesses benefit from significant structural tailwinds that will overwhelm any short-term impact from declining home prices (if in fact we do see a decline). Similarly, several stocks in the U.K. have become more attractive due to Brexit fears, and we have increased our holdings there as a result.

*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.*

### Portfolio Highlights

**Style:** Small Cap  
**Index:** MSCI® ACWI ex. U.S. Small Cap Index  
**Portfolio Turnover:** 25%–35%  
**Number of Holdings:** 40–50

### Investment Philosophy

- We believe that purchasing high-quality businesses with competitive protections at attractive valuations will achieve excess returns over a complete market cycle.

### Investment Objectives

- To achieve a return meaningfully above that of the MSCI® ACWI ex. U.S. Small Cap Index
- To achieve this return objective with a portfolio that exhibits lower overall risk characteristics

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	30
<b>Craig Thrasher, CFA</b> Portfolio Manager + Senior Research Analyst	12
<b>Craig Stone</b> Portfolio Manager + Senior Research Analyst	27
<b>Ekaterina V. Advena</b> Research Analyst	7

### Top 10 Holdings

As of December 31, 2016

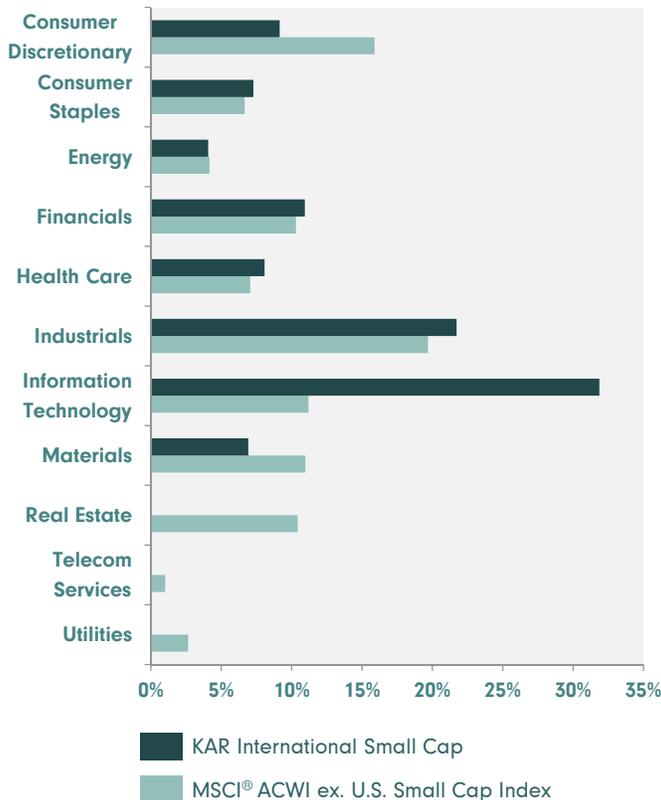
Company	Country	Percent of equity (%)
Scout24	Germany	4.8
Rightmove	United Kingdom	4.7
WIN-Partners	Japan	4.7
Autohome	China	4.4
Euler Hermes Group	France	4.1
Transpaco	South Africa	3.6
FIRSTLOGIC	Japan	3.4
AIT	Japan	3.4
Auto Trader Group	United Kingdom	3.3
Lumax International	Taiwan	3.2
<b>Total</b>		<b>39.7</b>

## 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>400 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>40–50 Stocks</b> <b>Position Weights</b> <ul style="list-style-type: none"> <li>Average position size is typically 1% to 5%</li> <li>Max initial position size is 5% (cost)</li> <li>Max position size is 10% (market)</li> </ul> <b>Sector and Geographic Tolerances</b> <ul style="list-style-type: none"> <li>Benchmark agnostic but seek broad diversification</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>Typical cash position less than 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 December 31, 2016



## Portfolio Characteristics

As of December 31, 2016

	KAR International Small Cap	MSCI® ACWI ex. U.S. Small Cap Index
<b>Quality</b>		
Return on Equity—Past 5 Years	26.7%	10.6%
Debt/Capital	18.3%	31.7%
<b>Growth</b>		
Earnings Per Share Growth—Past 10 Years	14.4%	7.0%
Dividend Per Share Growth—Past 10 Years	12.8%	5.9%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	16.9 x	21.1 x
Dividend Yield	3.0%	2.3%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap	\$1.7 B	\$1.9 B
Largest Market Cap	\$6.0 B	\$6.9 B

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.

Data is obtained from 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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Fourth Quarter 2016

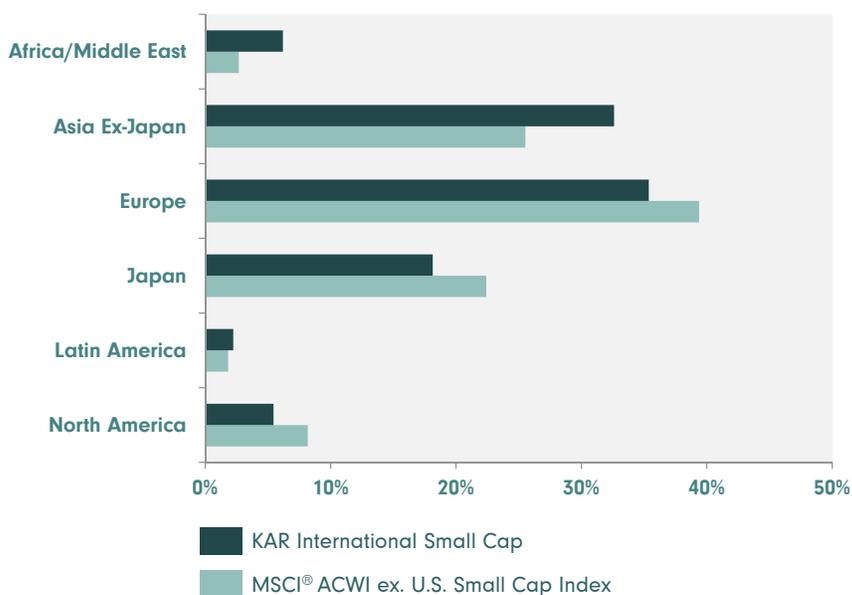
## Developed vs. Emerging Markets

As of December 31, 2016

	Percent of equity (%)
Developed Markets	76.0
Emerging Markets	24.0
<b>Total</b>	<b>100.0</b>

## Geographical Exposure

As of December 31, 2016



## Peer Comparison Chart

Inception\* to December 31, 2016



## Historical Returns

	KAR International Small Cap (gross)	KAR International Small Cap (net) <sup>†</sup>	MSCI ACWI ex. U.S. Small Cap Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of December 31, 2016			
4 <sup>th</sup> Quarter	3.51	3.26	(3.52)
One Year	22.80	21.60	3.91
Three Years	6.30	5.25	0.76
Five Years	14.71	13.59	7.74
Inception*	14.71	13.59	7.74
<b>Annual Returns (%)</b>			
2016	22.80	21.60	3.91
2015	(0.28)	(1.25)	2.60
2014	(1.92)	(2.91)	(4.03)
2013	32.42	31.16	19.73
2012	24.87	23.66	18.52

\*January 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 1% 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 ACWI ex. U.S. Small Cap Universe includes all managers categorized in the ACWI ex. U.S. small cap 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 December 31, 2016

	KAR International Small Cap	MSCI ACWI ex. U.S. Small Cap Index
Annualized Return	14.71	7.74
Alpha	7.54	0.00
Upside Capture %	115.77	100.00
Sharpe Ratio	1.12	0.58
Information Ratio	1.17	N/A
Beta	0.89	1.00
Downside Capture %	51.82	100.00

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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, 2014.

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 International Small Cap Composite has been examined for the period from January 1, 2012 through December 31, 2014. The verification and performance examination reports are available upon request.

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 all fully discretionary institutional and pooled International Small Cap Portfolios. International Small Cap Portfolios are invested in equity securities with market capitalizations in line with the MSCI® ACWI ex. U.S.A. Small Cap 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 MSCI® ACWI ex. U.S.A. Small Cap Index (net). The MSCI® ACWI ex. U.S.A. Small Cap Index is a market capitalization-weighted index of small-capitalization stocks of the MSCI® Global Investable Market Indices Universe, excluding U.S. companies. The index is calculated on a total-return basis with dividends reinvested, net of withholding taxes. Benchmark returns are not covered by the report of the independent verifiers. The composite was created in January 2012. A list of composite descriptions and policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The composite contained 100% non-fee-paying portfolios as of December 31, 2012, 12% non-fee-paying portfolios as of December 31, 2013, and 12% non-fee-paying portfolios as of December 31, 2014.

The standard management fee schedule currently in effect is as follows: 1.00% for the first \$100 million; 0.90% 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 net of 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, 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 2014 because 36 monthly composite returns are not available.

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

December 31	Composite	Benchmark
2014	11.99	13.33
2015	12.02	11.49

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	MSCI® ACWI ex. U.S. Small Cap Index (net) Annual Return (%)	Internal Dispersion
2012	6,545	4	< 5	24.87	23.66	18.52	N/A
2013	7,841	43	< 5	32.42	31.16	19.73	N/A
2014	7,989	42	< 5	(1.92)	(2.91)	(4.03)	N/A
2015	8,095	46	< 5	(0.28)	(1.25)	2.60	N/A

The MSCI® ACWI ex. U.S. Small Cap Index is a trademark/service mark of MSCI®. MSCI® is a trademark of MSCI Inc..