

## Large Cap Quality Value Portfolio

First Quarter 2017

### Portfolio Review

The Large Cap Quality Value portfolio outperformed the Russell 1000 Value Index during the quarter. From a sector perspective, performance was helped by strong stock selection in the consumer discretionary and financial sectors. Performance was hurt by poor stock selection in the information technology sector and from poor stock selection and an underweight in the utilities sector.

Positions that contributed most positively to performance during the quarter were Lowe's and Becton, Dickinson and Co. Lowe's results dramatically beat expectations. Some recent issues look to be resolving, as the re-launched lowes.com showed accelerating growth. Longer term we see operating leverage improvement as Lowe's continues to execute on self-help initiatives aimed at streamlining costs and increasing customer conversion rates. Becton, Dickinson, in 2014, struck a landmark deal to acquire medication management leader Care Fusion for \$12 billion with the vision that the combined company could be a more holistic medication efficiency partner to its hospital customers. Not only has the acquisition been a success domestically, but emerging markets now account for over a third of top-line growth. The company once again topped estimates in the first quarter, with strong volumes and outlined a promising innovation pipeline.

Holdings that contributed the least to performance during the quarter were Halliburton Company and Occidental Petroleum. Lower energy prices in the first quarter contributed to a decline in the share price of both Halliburton and Occidental Petroleum.

### Purchases and Sales

In the Large Cap Quality Value portfolio, we bought Crown Castle and Oracle, and sold our position in Occidental Petroleum.

Crown Castle owns, operates and leases multi-tenant wireless infrastructure, notably cell-phone towers. The company's core business provides access to its wireless infrastructure via long-term contracts, and its infrastructure is usually shared by more than one tenant. Long-term contracts and limited competition produce a relatively steady and consistent cash flow stream that is returned to shareholders via dividends. Crown Castle has an investment-grade balance sheet and has been paying a dividend since converting to a REIT in 2014.

Oracle is a leading provider of database software. The company's database products are high-margin products that are seen as vital by the company's customers. They are tightly integrated into a customer's operations and it is rare for customers to switch database providers. Oracle is currently undergoing a transition from providing its software using an on-premise model to one that is cloud-based. The company reinforced its confidence in its future by recently increasing the dividend by 27%. The stock has been an underperformer for the past several years, but we believe that this transition to a cloud-based business model will be positive for the company.

Over the past several years and months, Occidental Petroleum has streamlined its portfolio by selling some legacy assets (notably in California) and increasing its investment in the Permian Basin. However, the company's recent expansion in the Permian Basin weakened the balance sheet and increased the company's exposure to an area that does not generate positive free cash flow.

### Outlook

We believe the stock market and business activity are off to a good start this year. Corrections in the equity market may occur at any time, but conditions for a more meaningful equity bear market do not seem to be in place. President Trump's policy agenda is becoming clearer than it was during the election. However, it is still too early to declare that we have all the details on his agenda for trade policies and foreign affairs. Our patience in not overreacting to last fall's Trump rally has been rewarded. We'll adjust our portfolios if Trump's actual initiatives become reality, rather than speculation or random proposals. From a stock selection perspective, we'll continue to focus on quality companies with protective moats that can do well in both good and bad economic times.

## Portfolio Highlights

**Style:** Large Cap  
**Sub-Style:** Value  
**Index:** Russell 1000® Value  
**Portfolio Inception:** 1994  
**Portfolio Assets:** \$479.5 M  
**Portfolio Turnover:** 25%–35%

## Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	31
<b>Richard Sherry, CFA</b> Portfolio Manager + Senior Research Analyst	19
<b>Chris Armbruster, CFA</b> Research Analyst	12
<b>Kevin Ikeda</b> Research Analyst	6

## Top Five Holdings

As of March 31, 2017

Company	Percent of equity (%)
PNC Financial Services	5.3
U.S. Bancorp	5.1
Lowe's	4.6
WEC Energy Group	4.3
Marsh & McLennan Companies	4.2
<b>Total</b>	<b>23.5</b>

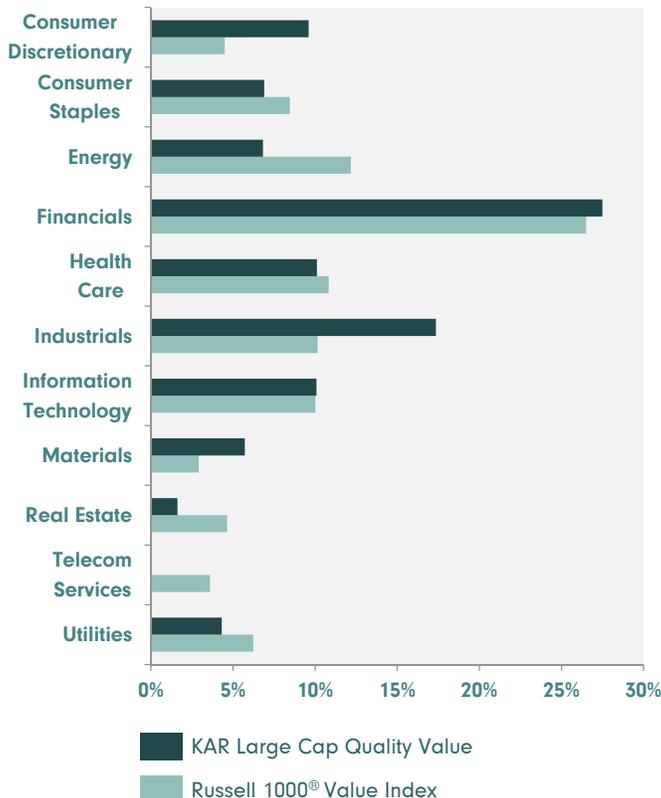
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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>200 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>50–60 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>23–35 Stocks</b> <b>Position Weights</b> <ul style="list-style-type: none"> <li>Average position size is typically 3%</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 1000® Value 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 March 31, 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 March 31, 2017

	KAR Large Cap Quality Value	Russell 1000® Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	21.1%	12.2%
Total Debt/EBITDA	2.7 x	4.7 x
Earnings Variance—Past 10 Years	26.2%	55.9%
S&P Stock Ranking (A+, A, A-, B+)	74.3%	52.5%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	7.5%	3.2%
Earnings Per Share Growth—Past 10 Years	8.0%	3.2%
Dividend Per Share Growth—Past 5 Years	14.3%	13.7%
Dividend Per Share Growth—Past 10 Years	11.1%	6.2%
Capital Generation—{ROE x (1-Payout)}	11.3%	6.9%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	26.7 x	23.9 x
Dividend Yield	2.1%	2.4%
Free Cash Flow Yield <sup>†</sup>	4.1%	3.4%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—4 Qtr. Avg.	\$57.3 B	\$117.2 B
Beta*	0.9	1.0
Annualized Standard Deviation—Tenure Period*	13.9%	15.5%

\*Period from April 1, 2006 to March 31, 2017. This period delineates the period that Richard Sherry, CFA has managed the portfolio as the sole portfolio manager.

<sup>†</sup>Free cash flow data is as of December 31, 2016. Prices are as of March 31, 2017.

Excludes financials.

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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First Quarter 2017

## Risk-Return Analysis

Tenure Period\*



## Historical Returns

	KAR Large Cap Quality Value (gross)	KAR Large Cap Quality Value (net) <sup>†</sup>	Russell 1000® Value Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of March 31, 2017			
1 <sup>st</sup> Quarter	4.26	4.08	3.27
One Year	11.71	10.94	19.22
Three Years	8.03	7.29	8.67
Five Years	11.31	10.54	13.13
Seven Years	11.17	10.38	12.18
Ten Years	6.72	5.86	5.93
Tenure Period*	7.50	6.61	6.88
<b>Annual Returns (%)</b>			
2016	10.70	9.93	17.34
2015	(3.09)	(3.76)	(3.83)
2014	13.88	13.07	13.45
2013	29.95	29.07	32.53
2012	13.63	12.85	17.51
2011	1.65	0.96	0.39
2010	14.30	13.19	15.51
2009	26.02	24.79	19.69
2008	(30.58)	(31.31)	(36.85)
2007	1.45	0.44	(0.17)
2006 <sup>§</sup>	14.21	13.37	15.40

## Performance Statistics

Tenure Period\*

	KAR Large Cap Quality Value	Russell 1000® Value Index
Annualized Return	7.50	6.88
Annualized Standard Deviation	13.85	15.52
Alpha	1.25	0.00
Beta	0.87	1.00
Sharpe Ratio	0.47	0.38
Downside Capture	92.25	100.00
R-Squared	94.22	100.00

\*Period from April 1, 2006 to March 31, 2017. This period delineates the period that Richard Sherry, CFA has managed the portfolio as the sole portfolio manager.

<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 the nine months ended December 31, 2006.

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.

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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 Large Cap Quality Value Composite has been examined for the period from January 1, 1999 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 Large Cap Quality Value Portfolios. Large Cap Quality Value Portfolios are invested in equity securities with market capitalizations consistent with the Russell 1000® Value Index, that have rising free cash flow, rising dividends and or stock repurchases, strong balance sheets, and a high relative yield. For comparison purposes, the composite is measured against the

Russell 1000® Value Index. The Russell 1000® Value Index is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises of 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 October 1994. As of January 1, 2011, the composite was redefined to include both institutional and mutual fund [or pooled] accounts. Previously, only institutional accounts were included. A list of composite descriptions and policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Prior to January 1, 2011, the composite minimum was \$250,000. Prior to July 1, 2004, the composite represented all non-taxable, fully discretionary Large Cap Quality Value Portfolios (including cash) under management for at least one full quarter. Prior to June 30, 2004, only eligible portfolios of at least \$500,000 are included in the composite. Prior to January 1, 2011, accounts that experienced a significant cash flow, as defined as aggregate flows that exceeded 25% of the account's beginning of period market value, were temporarily removed from the composite. This composite contained 26% non-fee-paying portfolios as of December 31, 2004, 15% non-fee-paying portfolios as of December 31, 2006, and < 1% non-fee-paying portfolios as of December 31, 2013, and December 31, 2014.

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 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 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
2011		18.19	20.98
2012		14.75	15.73
2013		12.04	12.88
2014		8.95	9.33
2015		11.08	10.83

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 1000® Value Index Annual Return (%)	Internal Dispersion
2006	6,523	55	30	18.35	17.19	22.25	0.06
2007	5,392	31	18	1.45	0.44	(0.17)	0.07
2008	3,445	7	14	(30.58)	(31.31)	(36.85)	0.34
2009	4,010	11	14	26.02	24.79	19.69	0.2
2010	4,729	6	12	14.30	13.19	15.51	0.29
2011	5,232	63	24	1.65	0.96	0.39	0.21
2012	6,545	177	66	13.63	12.85	17.51	0.5
2013	7,841	183	61	29.95	29.07	32.53	0.34
2014	7,989	218	70	13.88	13.07	13.45	0.28
2015	8,095	197	65	(3.09)	(3.76)	(3.83)	0.27

The Russell 1000® Value Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.