

## Large Cap Quality Value Portfolio

Second 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 industrials and health care sectors. Performance was hurt by poor stock selection in the consumer discretionary and consumer staples sectors.

Positions that contributed most positively to performance during the quarter were Zoetis and 3M. Zoetis had a solid quarter as sales were driven by its Apoquel and Simparica products for companion animals, while livestock was also strong driven by swine and cattle. The company has been rationalizing its product offerings over the past year and margins should begin reflecting this benefit in the coming quarters. A strong global economy and a strong competitive position are producing solid results that rewarded 3M's investors during the quarter.

Holdings that contributed the least to performance during the quarter were Halliburton and TJX. Lower energy prices in the second quarter contributed to a decline in the share price of Halliburton. While business fundamentals have not yet deteriorated, investors have pressured TJX due to expectations that brick and mortar retail woes spread to the off-priced channel.

### Purchases and Sales

In the Large Cap Quality Value portfolio, we bought British American Tobacco and Lamar Advertising.

Although global cigarette volumes continue to decline, British American Tobacco has performed better than the industry by focusing on its key Global Drive Brands. This strategy was implemented in the mid-to-late 1990s and has been about building differentiated brands that focus on the consumer. In addition, the industry continues to have the ability to more than offset volume declines with pricing, which has averaged in the mid-single digit range over the past few years. The company also has a strong presence in risk-reduction products. It has strong products in both the e-vapor category, as well as the heat-not-burn category. These categories could help offset volume declines and are anticipated to be higher margin than cigarettes.

Lamar Advertising engages in advertising services. The firm leases space for advertising on billboards, buses, shelters, benches, logo plates and in airport terminals. The company has focused on building dominant share in markets below the top-20 DMAs. Within billboards, Lamar is the largest provider in its local markets, but "mom and pops" can survive selling ad space on a few boards that are well located with high traffic. Over time, Lamar buys these "mom and pop" boards since there is no other logical buyer in a local market. Given the barriers to entry discussed above, Lamar has no meaningful direct competitors in the local billboard and poster businesses.

### 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.

## Portfolio Highlights

**Style:** Large Cap  
**Sub-Style:** Value  
**Index:** Russell 1000® Value  
**Portfolio Inception:** 1994  
**Portfolio Assets:** \$482.5 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 June 30, 2017

Company	Percent of equity (%)
PNC Financial Services	5.3
U.S. Bancorp	4.9
Becton, Dickinson and Company	4.2
Travelers	4.0
3M	3.8
<b>Total</b>	<b>22.2</b>

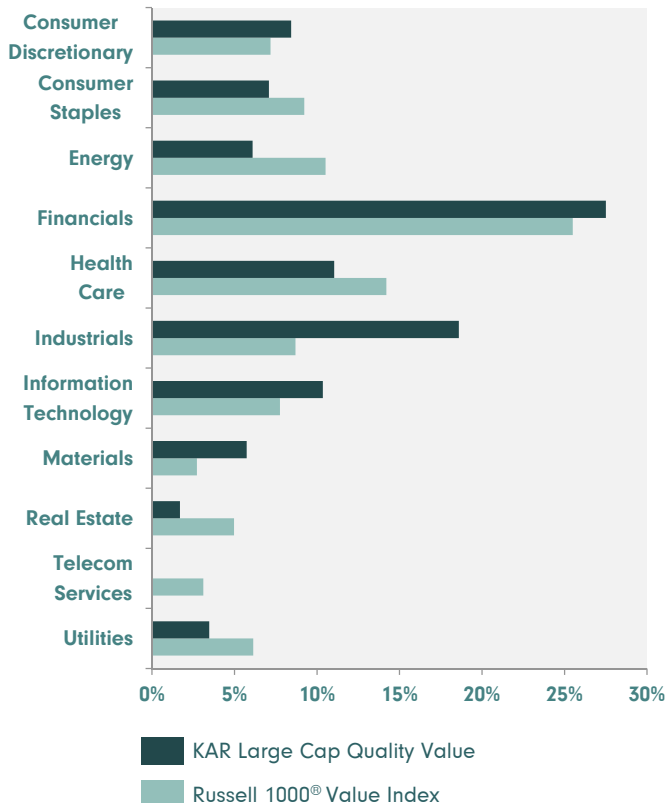
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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 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 Large Cap Quality Value	Russell 1000® Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	21.3%	12.3%
Total Debt/EBITDA	2.9 x	4.4 x
Earnings Variance—Past 10 Years	24.0%	50.2%
S&P Stock Ranking (A+, A, A-, B+)	72.2%	54.0%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	7.8%	4.5%
Earnings Per Share Growth—Past 10 Years	8.2%	3.7%
Dividend Per Share Growth—Past 5 Years	14.0%	12.4%
Dividend Per Share Growth—Past 10 Years	11.6%	6.6%
Capital Generation—{ROE x (1-Payout)}	11.7%	7.2%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	25.3 x	21.2 x
Dividend Yield	2.1%	2.4%
Free Cash Flow Yield <sup>†</sup>	4.1%	4.2%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—4 Qtr. Avg.	\$55.7 B	\$117.3 B
Beta*	0.9	1.0
Annualized Standard Deviation—Tenure Period*	13.7%	15.4%

\*Period from April 1, 2006 to June 30, 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 March 31, 2017. Prices are as of June 30, 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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## 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 June 30, 2017			
2 <sup>nd</sup> Quarter	3.09	2.91	1.34
Year to Date	7.66	7.28	4.66
One Year	11.26	10.49	15.53
Three Years	6.87	6.13	7.36
Five Years	12.55	11.77	13.94
Seven Years	13.40	12.60	14.31
Ten Years	6.51	5.66	5.57
Tenure Period*	7.63	6.75	6.85
<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	<b>7.63</b>	6.85
Annualized Standard Deviation	<b>13.70</b>	15.35
Alpha	<b>1.41</b>	0.00
Beta	<b>0.87</b>	1.00
Sharpe Ratio	<b>0.49</b>	0.38
Downside Capture	<b>91.81</b>	100.00
R-Squared	<b>94.17</b>	100.00

\*Period from April 1, 2006 to June 30, 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, 2015.

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, 2015. 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 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. 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. As of January 1, 2011, the composite was redefined to include both institutional and mutual fund [or pooled] accounts. This composite contained 26% non-fee-paying portfolios as of December 31, 2004, 15% non-fee-paying portfolios as of December 31, 2006, < 1% non-fee-paying portfolios as of December 31, 2013, December 31, 2014, December 31, 2015 and December 31, 2016.

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 1/12th 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, 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
2016	11.43	10.93

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
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	0.20
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	0.50
2013	7,841	183	61	29.95	29.07	32.53	0.34
2014	7,989	218	69	13.88	13.07	13.45	0.28
2015	8,095	197	65	(3.09)	(3.76)	(3.83)	0.27
2016	9,989	209	75	10.70	9.93	17.34	0.27

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