Kayne Anderson Rudnick
Investment Management

Large Cap Sustainable Growth Portfolio

Second Quarter 2017

Portfolio Review

The Large Cap Sustainable Growth portfolio outperformed the Russell 1000 Growth Index during the second quarter. For the quarter, the portfolio benefited from strong stock selection in the information technology and consumer staples sectors, while negative stock selection in the health care sector, and an overweight to the energy sector, detracted from performance.

Holdings that contributed the most to performance during the quarter were Alibaba Group and Facebook. 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% to 49% versus a 35% estimate. 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. Future growth levers include untapped monetization of Messenger, WhatsApp and video advertising, along with virtual reality. The company's momentum continued into the second quarter, fueled by first quarter results, which showed daily average users were up 18% to a staggering 1.28 billion, and Instagram topping 700 million monthly average users, reporting its best ever quarter-over-quarter growth rate with 200 million users taking advantage of the Snapchat-like Instagram stories.

Holdings that detracted the most from performance were Ross Stores and Pioneer Nature Resources. Ross's 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 product acceptable ROIs.

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
Illumina	Bristol-Myers Squibb
MarketAxess Holdings	

Portfolio Highlights

Style: Large Cap
Sub-Style: Growth
Index: Russell 1000® Growth
Portfolio Turnover: 25%–35%

Investment Management Team

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

Top Five Holdings

As of June 30, 2017

Company	Percent of equity (%)
Facebook	10.2
Alibaba Group	5.5
Amazon.com	4.4
Visa	3.7
Priceline Group	3.5
Total	**27.5**

Investment Process: Discovering Quality

Development of High-Quality Universe

200 Stocks

Quantitative Screens
- High return on capital over a full economic cycle
- Long and resilient earnings history
- High return on net operating assets
- Minimal debt

Other Resources
- Research on existing portfolio holdings
- Meetings with companies
- Industry reviews
- Investment conferences
- Third-party research

Proprietary Fundamental Research

60–70 Stocks

Qualitative Analysis
- Evaluate sustainability of business model and assess management's ability to direct capital where it can create further control of its market

Financial Analysis
- Evaluate basis for superior profitability, long-term growth potential, and ability to allocate capital appropriately

Valuation Analysis
- Determine the current and potential value of the business

Portfolio Construction

40–50 Stocks

Position Weights
- Average position size is typically 2%
- Max initial position size is 5% (cost)
- Max position size is 10% (market)

Sector Tolerances
- +/- 10% of the sector weights of the Russell 1000® Growth Index

Holding Period
- Typically 3-to-5 years
- Portfolio turnover is typically 25% to 35%

Cash Levels
- Fully Invested
- Max cash position is 10%

Sell Discipline

Extended Valuation

Portfolio Upgrade

Diversification Requirements

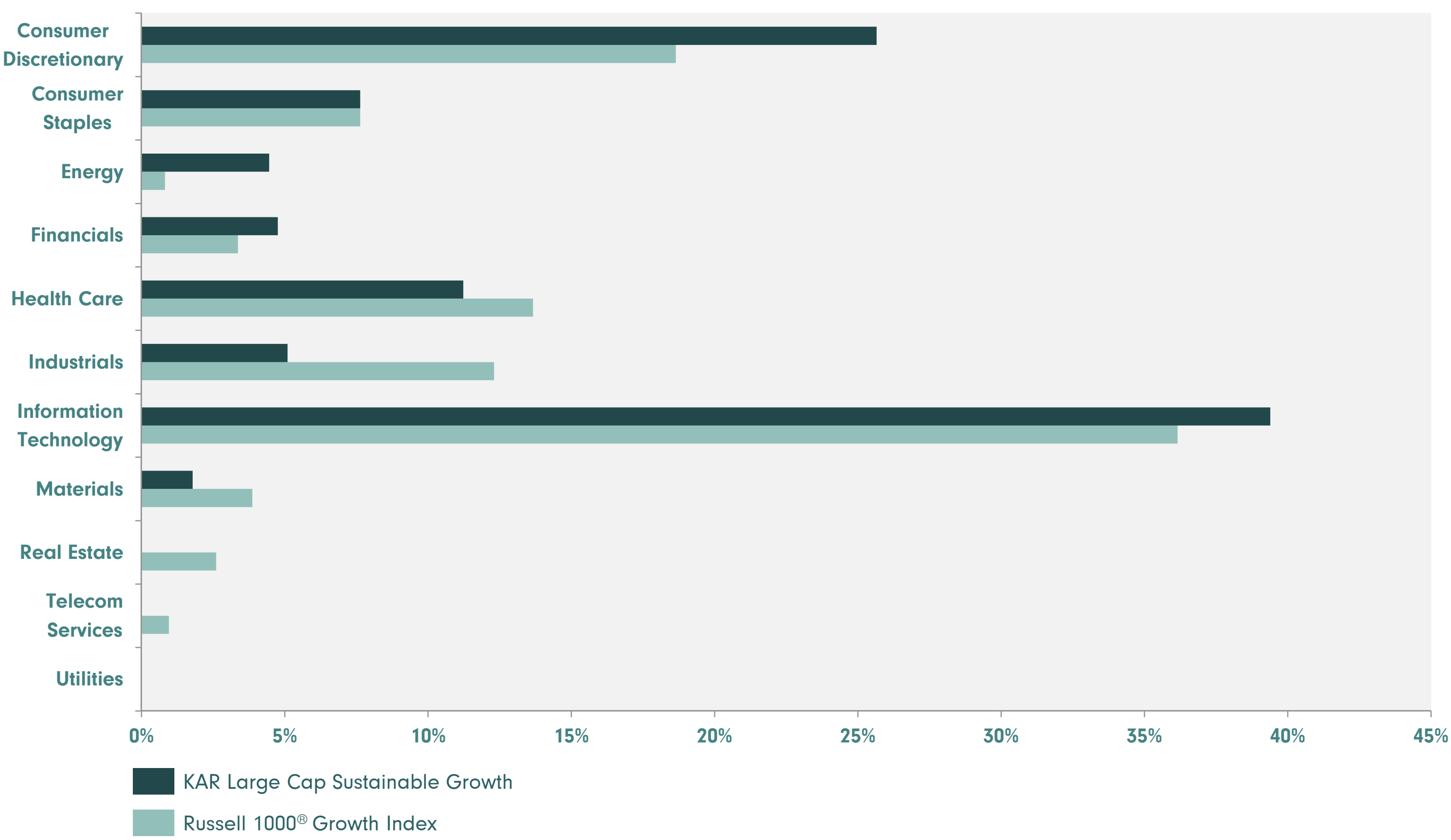
Acquisition Activity

Negative Company or Industry Changes

Higher Quality | Stronger, More Consistent Growth | Better Value

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.

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Second Quarter 2017

Portfolio Characteristics

As of June 30, 2017

	KAR Large Cap Sustainable Growth	Russell 1000® Growth Index
Quality		
Return on Equity—Past 5 Years	20.9%	21.9%
Total Debt/EBITDA	2.8 x	2.3 x
Earnings Variance—Past 10 Years	43.4%	40.7%
Growth		
Earnings Per Share Growth—Past 5 Years	16.0%	10.3%
Earnings Per Share Growth—Past 10 Years	14.2%	13.0%
Capital Generation—{ROE x (1-Payout)}	16.9%	14.8%
Value		
P/E Ratio—Trailing 12 Months	44.2 x	26.8 x
Free Cash Flow Yield*	3.3%	4.6%
Market Characteristics		
$ Weighted Average Market Cap—4 Qtr. Avg.	$138.3 B	$168.8 B
Largest Market Cap—4 Qtr. Avg.	$571.8 B	$697.9 B

Performance Statistics

Inception† to June 30, 2017

	KAR Large Cap Sustainable Growth	Russell 1000® Growth Index
Annualized Return	15.80	15.82
Annualized Standard Deviation	11.88	10.54
Beta	1.07	1.00
Sharpe Ratio	1.33	1.50
R-Squared	89.96	100.00

Historical Returns

	KAR Large Cap Sustainable Growth (gross)	KAR Large Cap Sustainable Growth (net)§	Russell 1000® Growth Index
Annualized Returns (%)† As of June 30, 2017			
2nd Quarter	8.49	8.31	4.67
Year to Date	20.16	19.75	13.99
One Year	22.98	22.14	20.42
Three Years	12.96	12.19	11.11
Five Years	15.18	14.38	15.30
Inception‡	15.80	15.00	15.82
Annual Returns (%)			
2016	(0.03)	(0.73)	7.08
2015	10.43	9.68	5.67
2014	12.66	11.86	13.05
2013	30.66	29.78	33.48
2012	14.76	13.96	15.26

**Free cash flow data is as of March 31, 2017. Prices are as of June 30, 2017. Excludes financials.*

†All periods less than one year are total returns and are not annualized. Returns are preliminary.

‡January 1, 2012

§Net of all fees and expenses. Assumes a 0.70% 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. 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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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 all fully discretionary institutional and pooled Large Cap Sustainable Growth Portfolios. Large Cap Sustainable Growth Portfolios are invested in equity securities with market capitalizations consistent with the Russell 1000® 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 1000® Growth Index. The Russell 1000® Growth Index is a market capitalization-weighted index of growth-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 January 2012. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. This composite contained 8% non-fee-paying portfolios as of December 31, 2013, 0.1% non-fee-paying portfolios as of December 31, 2014 and December 31, 2015 and <0.1% non- fee-paying portfolios as of 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 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 1/12th 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, 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. 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
2014	10.39	9.73
2015	12.33	10.85
2016	13.24	11.31

Year	Total Firm Assets ($ millions)	Total Composite Assets ($ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 1000® Growth Index Annual Return (%)	Internal Dispersion
2012	6,545	583	24	14.76	13.96	15.26	0.03
2013	7,841	674	25	30.66	29.78	33.48	0.08
2014	7,989	681	25	12.66	11.86	13.05	0.14
2015	8,095	687	31	10.43	9.68	5.67	0.35
2016	9,989	928	57	(0.03)	(0.73)	7.08	0.06