

Small Cap Core Portfolio

First Quarter 2018



Portfolio Review

The Small Cap Core portfolio outperformed the Russell 2000 Index during the first quarter. The outperformance was primarily driven by strong stock selection in the technology and producer durables sectors, and was offset slightly by weak stock selection in consumer discretionary.

The biggest contributors to performance during the quarter were Autohome and Abaxis. Autohome reported strong fourth-quarter earnings, with revenue growth in excess of 30% and profit margins higher than a year earlier. The company continues to benefit from the secular shift of ad revenues to online media and the networks effects inherent in the websites it operates. Given Autohome's strong competitive positioning, improved capital allocation discipline and the expected long-term growth of the Chinese car market, we remain owners of the business. Abaxis shares rose in the last quarter following a weak 2017. The company saw a surge in revenue growth after previously experiencing benign-to-falling performance. New product releases due to the previous increase in R&D and a ramp up in the sales force have helped improve results and should bode well for future growth.

The biggest detractors from the portfolio during the quarter were Artisan Partners Asset Management and WABCO Holdings. Artisan Partners is experiencing net outflows due to poor investment performance among some of its strategies. Additionally, other strategies with favorable investment performance are not accepting new clients or are too small to impact total assets. The general appetite for passive vehicles is also a headwind. We believe that over time the company's unique business model—built on developing autonomous investment teams—will attract skilled professionals and enable Artisan to develop successful new teams. We also like the company's practice of distributing net income to shareholders. While WABCO's fourth-quarter results were very good, guidance for 2018 was not as high as some investors had expected. This, coupled with a valuation that was on the expensive side, has resulted in near-term weakness in the share price. However, the company's competitive position remains intact, and many tailwinds remain for WABCO to continue to outgrow global commercial truck production by increasing its content per vehicle. As a result, we remain owners of the business.

Purchases and Sales

We purchased Moelis & Co. and Rightmove in the first quarter and made no complete sales during the period.

Moelis & Co. (MC) is a global investment bank that provides financial advisory, restructuring and capital raising services. The founders of MC have focused on hiring high-performing managing directors and cultivating a distinct firm culture and reputation. This has allowed MC to quickly take market share and climb the M&A league tables. While other firms could try to copy this model, successful execution is far from certain. MC has had double-digit growths in sales and earnings before interest and taxes over the past seven years, and takes a shareholder-friendly approach to capital by returning excess cash in dividends.

Rightmove is the No. 1 residential property website for properties for sale and to rent in the U.K. The company has established a strong network effect as U.K. home buyers have shifted their home-purchasing behavior. This network effect has allowed Rightmove considerable pricing power and margin expansion opportunities. The company has had double-digit revenue growth over the past five years, its balance sheet is clean and management has allocated free cash flow in a prudent manner.

Outlook

We want to underscore that market corrections, even as they are unpredictable, sharp and painful, are necessary to remove excessive speculation in the stock market and to shake out weak holders. We still believe that businesses will be growing their earnings over the next couple of years and that the stock market will ultimately reward this growth with positive returns in the mid- to high-single-digit range. The shape of the yield curve is certainly worth monitoring over the next year or two, and we would like to see it steepen. As always, we will stay focused on investing in high-quality businesses with a sustainable competitive edge.

Portfolio Highlights

Style: Small Cap
Sub-Style: Core
Index: Russell 2000®
Portfolio Inception: 1992
Portfolio Assets: \$5,734.3 M
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	32
Todd Beiley, CFA Portfolio Manager + Senior Research Analyst	19
Jon Christensen, CFA Portfolio Manager + Senior Research Analyst	23
Julie Kutasov Senior Research Analyst	17
Craig Stone Senior Research Analyst	29
Chris Wright, CFA Senior Research Analyst	8
Julie Biel, CFA Research Analyst	10

Top Five Holdings

As of March 31, 2018

Company	Percent of equity (%)
Autohome	9.3
Copart	6.3
Teledyne Technologies	5.5
Old Dominion Freight Line	5.5
Rightmove	5.4
Total	31.9

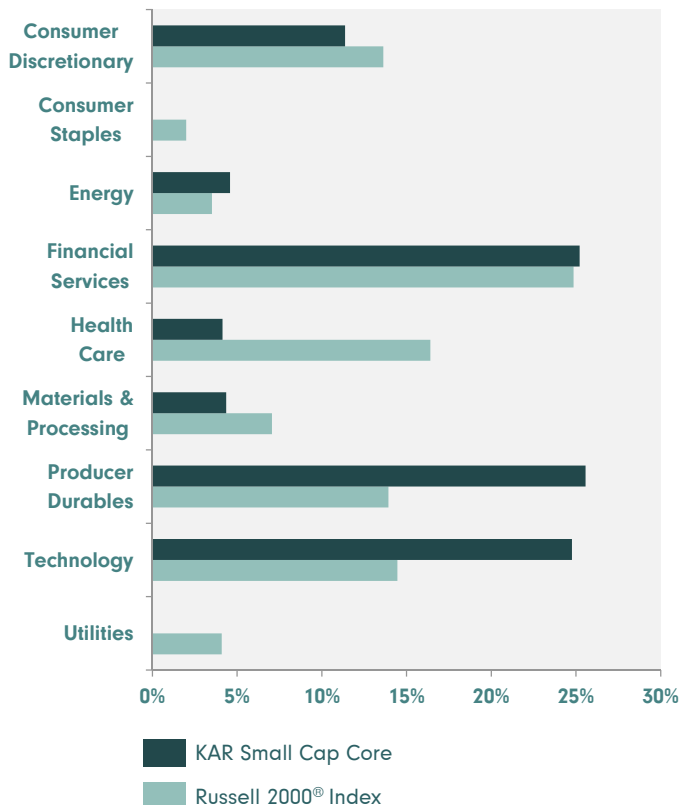
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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

Development of High-Quality Universe	Proprietary Fundamental Research	Portfolio Construction	Sell Discipline
200 Stocks Quantitative Screens <ul style="list-style-type: none"> High return on capital over a full economic cycle Long and resilient earnings history High return on net operating assets Minimal debt Other Resources <ul style="list-style-type: none"> Research on existing portfolio holdings Meetings with companies Industry reviews Investment conferences Third-party research 	50–60 Stocks Qualitative Analysis <ul style="list-style-type: none"> Evaluate sustainability of business model and assess management's ability to direct capital where it can create further control of its market Financial Analysis <ul style="list-style-type: none"> Evaluate basis for superior profitability, long-term growth potential, and ability to allocate capital appropriately Valuation Analysis <ul style="list-style-type: none"> Determine the current and potential value of the business 	20–40 Stocks Position Weights <ul style="list-style-type: none"> Typically 3%-4% Maximum weight 10% (at market) Sector Tolerances <ul style="list-style-type: none"> Typically +/- 10% of the Russell 2000® Index, utilizing Russell sector classifications Holding Period <ul style="list-style-type: none"> Typically 3-to-5 years, but is often longer Portfolio turnover is typically 25% to 35% Cash Levels <ul style="list-style-type: none"> Typically will not exceed 10% once a portfolio is fully invested 	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 March 31, 2018



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 Russell sector classifications. Data is obtained by FactSet Research Systems and is assumed to be reliable.

Portfolio Characteristics

As of March 31, 2018

	KAR Small Cap Core	Russell 2000® Index
Quality		
Return on Equity—Past 5 Years	27.2%	10.3%
Total Debt/EBITDA	1.3 x	5.9 x
Earnings Variability—Past 10 Years	29.9%	77.7%
Growth		
Earnings Per Share Growth—Past 10 Years	15.7%	7.6%
Dividend Per Share Growth—Past 10 Years	14.9%	4.9%
Capital Generation—{ROE x (1-Payout)}	21.6%	8.0%
Value		
P/E Ratio—Trailing 12 Months	30.4 x	38.2 x
Dividend Yield	0.8%	1.3%
Free Cash Flow Yield†	3.4%	1.7%
Market Characteristics		
\$ Weighted Average Market Cap—3-Year Avg.	\$4.5 B	\$2.1 B
Largest Market Cap—3-Year Avg.	\$8.7 B	\$8.1 B
Annualized Standard Deviation—Since Inception*	14.8%	18.4%

*April 1, 1992

†Free cash flow data is as of December 31, 2017. Prices are as of March 31, 2018. Excludes financials.

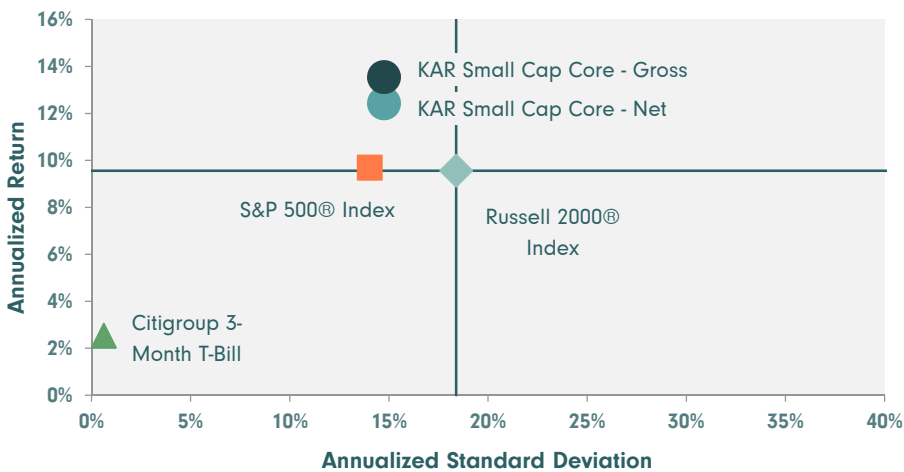
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. Past performance is no guarantee of future results.

Small Cap Core Portfolio

First Quarter 2018

Strong Risk-Adjusted Returns

Inception* to March 31, 2018



Historical Returns

	KAR Small Cap Core (gross)	KAR Small Cap Core (net) [‡]	Russell 2000® Index
Annualized Returns (%)[†]			
As of March 31, 2018			
1 st Quarter	6.10	5.84	(0.08)
One Year	36.72	35.39	11.79
Three Years	19.28	18.12	8.39
Five Years	17.56	16.40	11.47
Seven Years	15.77	14.63	10.39
Ten Years	15.08	13.94	9.84
Inception*	13.55	12.43	9.56
Annual Returns (%)			
2017	36.60	35.27	14.65
2016	19.10	17.93	21.31
2015	2.37	1.36	(4.41)
2014	7.51	6.43	4.89
2013	30.10	28.84	38.82
2012	13.42	12.29	16.35
2011	10.14	9.08	(4.18)
2010	25.00	23.79	26.85
2009	32.09	30.80	27.17
2008	(27.64)	(28.40)	(33.79)
2007	3.16	2.14	(1.57)
2006	13.43	12.30	18.37
2005	7.78	6.70	4.55
2004	23.37	22.14	18.33
2003	34.34	33.06	47.25
2002	(12.74)	(13.62)	(20.48)
2001	6.16	5.13	2.49
2000	21.38	20.18	(3.02)
1999	6.09	5.06	21.26
1998	21.39	20.20	(2.55)
1997	20.82	19.63	22.36
1996	27.00	25.74	16.49
1995	17.47	16.30	28.45
1994	2.75	1.74	(1.82)
1993	20.00	18.84	18.88
1992 [§]	9.65	8.85	10.16

*April 1, 1992

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

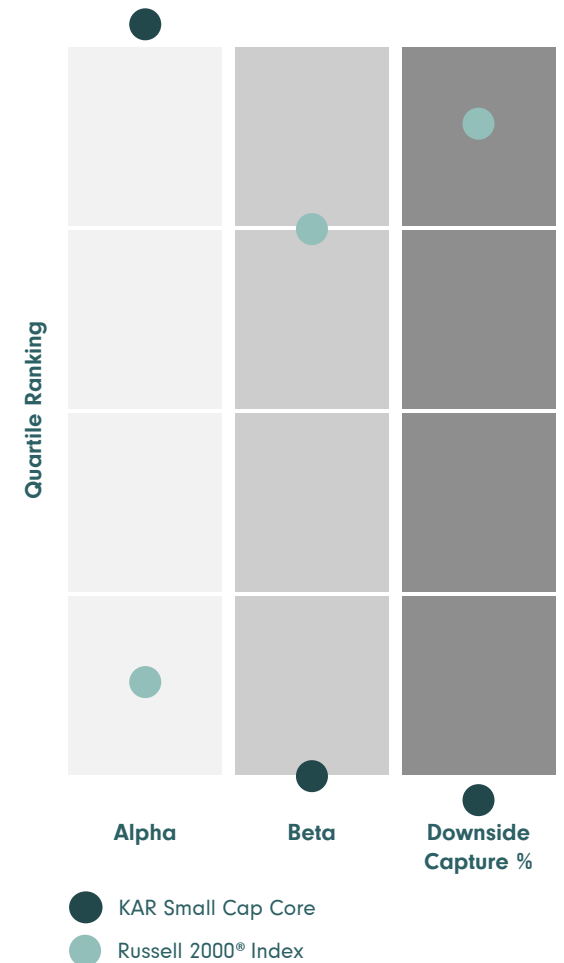
[‡]Net of all fees and expenses. Assumes a 1% annual fee.

[§]Performance calculations are for the nine months ended December 31, 1992.

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 Small Cap Core Universe includes all managers categorized in the small cap core 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.

Peer Comparison Chart

Ten Years Ending March 31, 2018



Performance Statistics

Inception* to March 31, 2018

	KAR Small Cap Core	Russell 2000® Index
Annualized Return	13.55	9.56
Annualized Standard Deviation	14.75	18.39
Alpha	5.68	0.00
Beta	0.70	1.00
Sharpe Ratio	0.75	0.38
R-Squared	75.17	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, 2016.

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 Small Cap Core Composite has been examined for the period from January 1, 1999 through December 31, 2016. 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 discretionary institutional and pooled Small Cap Core Portfolios. Small Cap Core Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2000® 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 2000® Index. The Russell 2000® Index is a market capitalization-weighted index of the 2,000 smallest 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 April 1992. 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 December 31, 2010, only non-taxable portfolios are included in the composite. As of January 1, 2011, the composite was redefined to include both taxable and tax-exempt accounts. 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. Prior to January 1, 2011, accounts that experienced a significant cash flow, defined as aggregate flows that exceeded 25% of the account's beginning of period market value, were temporarily removed from the composite.

The standard management fee schedule currently in effect is as follows: 1.00% for the first \$25 million; 0.80% on the next \$25 million; 0.70% 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		20.61	25.34
2012		15.26	20.48
2013		11.81	16.68
2014		9.79	13.31
2015		11.28	14.16
2016		12.50	15.99

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2000® Index Annual Return (%)	Internal Dispersion
2007	5,392	138	41	3.16	2.14	(1.57)	0.48
2008	3,445	69	31	(27.64)	(28.40)	(33.79)	0.54
2009	4,010	75	23	32.09	30.80	27.17	0.55
2010	4,729	63	22	25.00	23.79	26.85	0.76
2011	5,232	362	88	10.14	9.08	(4.18)	0.67
2012	6,545	541	102	13.42	12.29	16.35	0.33
2013	7,841	1,018	121	30.10	28.84	38.82	1.41
2014	7,989	965	145	7.51	6.43	4.89	0.24
2015	8,095	1,048	157	2.37	1.36	(4.41)	0.23
2016	9,989	1,303	209	19.10	17.93	21.31	0.49

The Russell 2000® Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.