

Small Cap Core Portfolio

Second Quarter 2017



Portfolio Review

The Small Cap Core portfolio outperformed the Russell 2000 Index during the second quarter. The outperformance was primarily driven by positive stock selection in the technology and consumer discretionary sectors. Performance was primarily hurt by an underweight in health care and an overweight in energy.

Positions that contributed most positively to performance during the quarter were Autohome and Fox Factory. Despite a slowdown in car sales volumes in China, Autohome's most recent quarterly sales results showed robust growth, which speaks to the secular shift of ad budgets from offline to online media. As the new management team rids the company of the new car transaction business, we are seeing the underlying profitability of the core business begin to reemerge. Given Autohome's strong competitive positioning, better capital allocation under new management and the expected long-term growth of the Chinese car market, we remain owners of the business. Fox Factory's growth has accelerated due to new model specification wins in its mountain bike segment and the initiation of production of on-road sports trucks by its original equipment manufacturer customers. We believe Fox's reputation in its distinctive markets is a healthy competitive advantage that will provide Fox with enduring success.

Positions that contributed most negatively to performance during the quarter were Primerica and Dril-Quip. Primerica's shares increased following the election due to investor expectations that the Department of Labor's Fiduciary Standard Rule would be scaled back prior to going into effect next year. However, as of now, no changes have been made to the rule, which has rekindled some investor angst. In addition, Primerica missed analyst estimates in the most recent quarter due to elevated claims expense, which we view to be transitory. Dril-Quip's shares lagged driven by continuous weakness in deepwater drilling activity due to depressed crude oil prices. Our favorable view of the company's competitive positioning remains intact, however. Importantly, Dril-Quip has a long-term track record of disciplined capital allocation (with a focus on organic growth and returning excess cash to shareholders), and the company's balance sheet is debt-free.

Purchases and Sales

In the Small Cap Core portfolio, we bought a position in Manhattan Associates and sold our position in The Chefs' Warehouse during the quarter.

Manhattan Associates is a software provider, focused on complex supply chain and omni-channel solutions. The company helps customers reduce inventory, optimize warehouses operations, and drive other supply chain efficiencies. Manhattan's clients rely on the software to run their complex supply chain operations. Once the mission-critical software is in place, it becomes the backbone of a client's inventory passage through its supply chain. Changing software providers post-implementation would be both extremely costly as well as highly disruptive to the business. Further, Manhattan allocates capital in a shareholder-friendly manner.

We sold our position in The Chef's Warehouse due to its small market capitalization and our company ownership limit.

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: Small Cap
Sub-Style: Core
Index: Russell 2000®
Portfolio Inception: 1992
Portfolio Assets: \$4,041.8 M
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	31
Todd Bailey, CFA Portfolio Manager + Senior Research Analyst	18
Jon Christensen, CFA Portfolio Manager + Senior Research Analyst	22
Julie Kutsov Senior Research Analyst	16
Craig Stone Senior Research Analyst	28
Chris Wright, CFA Senior Research Analyst	7
Chris Benway, CFA Research Analyst	8
Julie Biel, CFA Research Analyst	9

Top Five Holdings

As of June 30, 2017

Company	Percent of equity (%)
Autohome	7.7
CDW	6.1
Primerica	5.6
WABCO Holdings	5.2
Copart	5.1
Total	29.6

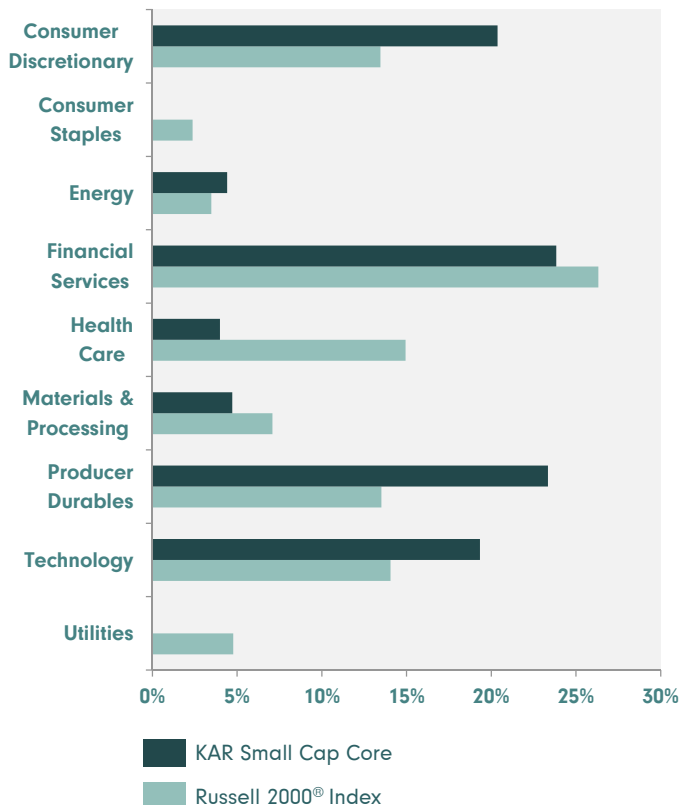
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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 	23–35 Stocks Position Weights <ul style="list-style-type: none"> Average position size is typically 3% Max initial position size is 5% (cost) Max position size is 10% (market) Sector Tolerances <ul style="list-style-type: none"> +/- 10% of the sector weights of the Russell 2000® Index Holding Period <ul style="list-style-type: none"> Typically 3-to-5 years Portfolio turnover is typically 25% to 35% Cash Levels <ul style="list-style-type: none"> Typically less than 5% Max cash position is 10% 	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 Russell sector classifications. Data is obtained by FactSet Research Systems and is assumed to be reliable.

Portfolio Characteristics

As of June 30, 2017

	KAR Small Cap Core	Russell 2000® Index
Quality		
Return on Equity—Past 5 Years	28.7%	10.1%
Total Debt/EBITDA	1.5 x	6.0 x
Earnings Variance—Past 10 Years	32.6%	80.0%
Growth		
Earnings Per Share Growth—Past 10 Years	13.4%	6.2%
Dividend Per Share Growth—Past 10 Years	15.1%	4.3%
Capital Generation—{ROE x (1-Payout)}	21.6%	7.7%
Value		
P/E Ratio—Trailing 12 Months	26.8 x	38.5 x
Dividend Yield	0.8%	1.3%
Free Cash Flow Yield†	4.0%	1.8%
Market Characteristics		
\$ Weighted Average Market Cap—4 Qtr. Avg.	\$4.6 B	\$2.1 B
Largest Market Cap—4 Qtr. Avg.	\$8.9 B	\$8.7 B
Annualized Standard Deviation—Since Inception*	14.8%	18.6%

*April 1, 1992

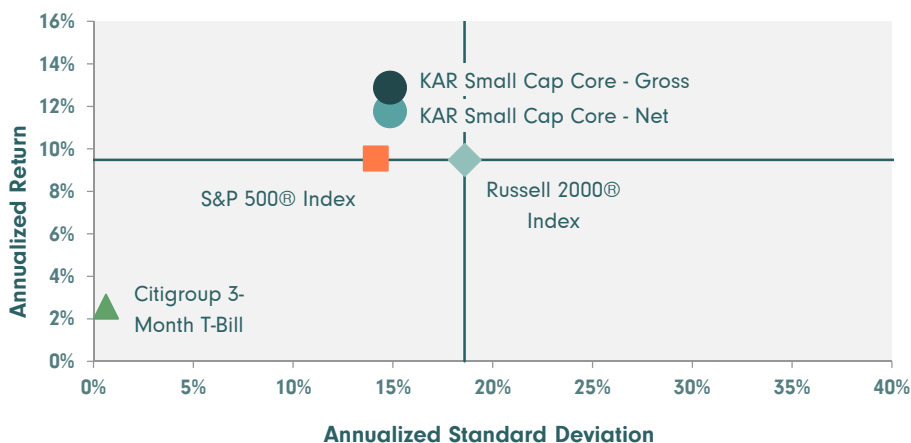
†Free cash flow data is as of March 31, 2017. Prices are as of June 30, 2017. Excludes financials. This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. 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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Strong Risk-Adjusted Returns

Inception* to June 30, 2017



Historical Returns

	KAR Small Cap Core (gross)	KAR Small Cap Core (net) [†]	Russell 2000 [®] Index
Annualized Returns (%)[†]			
As of June 30, 2017			
2 nd Quarter	7.05	6.79	2.46
Year to Date	13.47	12.92	4.99
One Year	25.07	23.85	24.60
Three Years	13.76	12.65	7.36
Five Years	15.01	13.87	13.70
Seven Years	17.02	15.87	14.35
Ten Years	10.81	9.71	6.92
Inception*	12.88	11.77	9.48

Annual Returns (%)			
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 June 30, 2017



Performance Statistics

Inception* to June 30, 2017

	KAR Small Cap Core	Russell 2000 [®] Index
Annualized Return	12.88	9.48
Annualized Standard Deviation	14.85	18.59
Alpha	5.09	0.00
Beta	0.69	1.00
Sharpe Ratio	0.70	0.37
R-Squared	75.66	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, 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 Small Cap Core 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 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.