

## Small Cap Quality Value Portfolio

First Quarter 2017

### Portfolio Review

The Small Cap Quality Value portfolio outperformed the Russell 2000 Value Index during the first quarter. The outperformance was primarily driven by strong stock selection in the consumer staples and producer durables sectors. Performance was primarily hurt by negative stock selection in the health care sector and an underweight in utilities.

Positions that contributed most positively to performance during the quarter were National Beverage and SiteOne Landscape Supply. Sales of National Beverage's LaCroix brand helped the company's overall sales grow 20%, driven by a more than 50% increase in LaCroix's sales. As the market has begun to price in the potential for LaCroix to be a billion dollar brand for National Beverage, the stock has continued to move meaningfully higher. Good organic daily sales growth in the quarter, along with management guidance for double-digit earnings growth for 2017, helped propel SiteOne's stock price higher. Longer-term, the company is still trading at a lower multiple than similar high-quality distribution businesses. What's more, the company and industry consolidation is still in its early stages.

Positions that contributed most negatively to performance during the quarter were Sally Beauty and Cass Information Systems. Traffic continues to be a challenge in the core Sally Beauty stores—though the efforts to modernize the fleet and products have led to better conversion. There is also concern that growth at Beauty Systems Group, the professional stores, could falter in the coming year. Cass Information Systems' shares lagged in the first quarter after rising sharply in November 2016 following the U.S. presidential election, which heightened investor expectations of rising short-term interest rates, higher fuel prices, and meaningful economic stimulus through tax reform, infrastructure spending and deregulation.

### Purchases and Sales

In the Small Cap Quality Value portfolio, we bought positions in Anika Therapeutics, Lincoln Electric Holdings, SiteOne Landscape Supply and Watsco. In the quarter, we sold our positions in CEB.

Anika Therapeutics is a medical device company in a niche area of health care, with solid industry fundamentals, and a strong and improving market share position. While the company's core visco-supplementation products continue to perform well, we believe the real opportunity is in the company's new products. While it may take some products several years to reach the market, the company's compelling valuation, strong profitability and high cash position warrant a place in our portfolios with a long-term outlook.

Lincoln Electric Holdings is a global leader in the design, development and manufacturing of welding products. We believe the stock warrants an initial position in our portfolios, as the growth of sales over the next five years should be better than the previous five years.

SiteOne Landscape Supply is the largest and only national wholesale distributor of landscape supplies in the U.S. SiteOne is four times the size of its largest competitor, and larger than the number two through ten competitors combined with only a 10% market share. Given its large and fragmented customer and supplier bases, the company has the ability to exert some pricing concessions from suppliers over its smaller competitors while maintaining the ability to price at a premium given fragmented local competition.

Watsco is the largest HVAC distributor in North America, with 10% market share versus 2.5% for the closest competitor. Watsco has strong relationships with several heating, ventilation and air conditioning original equipment manufacturers and their considerable scale creates contractor loyalty.

During the quarter, CEB announced that it was being acquired by Gartner in a cash-and-stock transaction representing about a 25% premium based on the two companies' previous day stock closing prices. With the shares trading at the level representing an insignificant discount to the acquisition price, we exited our position in the company.

### 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:** Small Cap  
**Sub-Style:** Value  
**Index:** Russell 2000® Value  
**Portfolio Inception:** 1998  
**Portfolio Assets:** \$2,476.9 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

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

### Top Five Holdings

As of March 31, 2017

Company	Percent of equity (%)
RE/MAX Holdings	5.0
Cinemark Holdings	4.7
National Beverage	4.3
Graco	4.3
Cheesecake Factory	4.2
<b>Total</b>	<b>22.6</b>

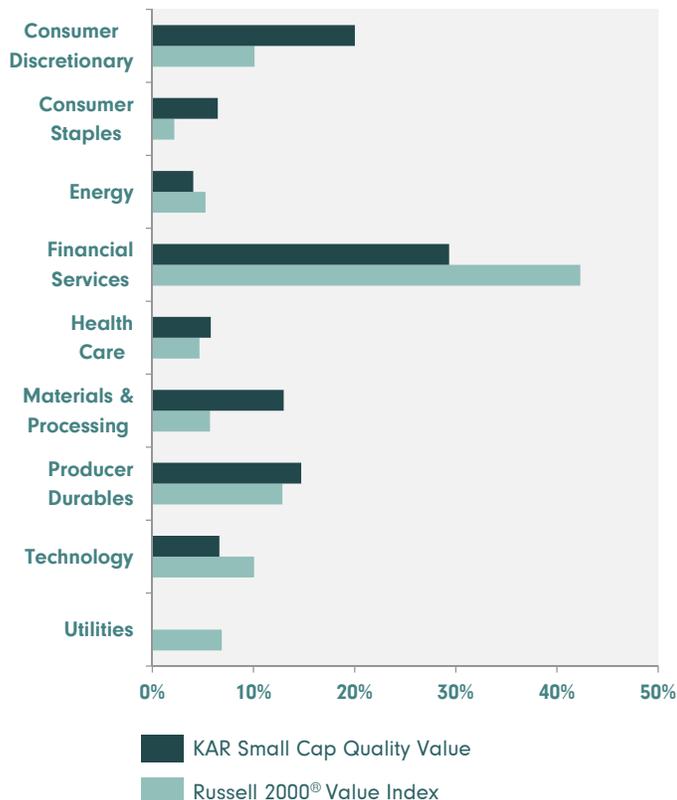
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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 weights 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 2000® 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 Russell sector classifications. Data is obtained by FactSet Research Systems and is assumed to be reliable.

## Portfolio Characteristics

As of March 31, 2017

	KAR Small Cap Quality Value	Russell 2000® Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	21.5%	8.1%
Total Debt/EBITDA	1.7 x	6.9 x
Earnings Variance—Past 10 Years	25.7%	85.1%
S&P Stock Ranking (A+, A, A-, B+)	67.4%	24.0%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	6.7%	6.7%
Earnings Per Share Growth—Past 10 Years	10.4%	4.7%
Dividend Per Share Growth—Past 5 Years	11.8%	7.0%
Dividend Per Share Growth—Past 10 Years	9.9%	1.8%
Capital Generation—{ROE x (1-Payout)}	10.9%	5.7%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	29.7 x	31.0 x
Dividend Yield	1.5%	1.9%
Free Cash Flow Yield†	4.3%	3.9%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—4 Qtr. Avg.	\$3.0 B	\$1.9 B
Largest Market Cap—4 Qtr. Avg.	\$7.0 B	\$8.3 B
Annualized Standard Deviation—Since Inception*	16.2%	18.4%

\*June 1, 1998

†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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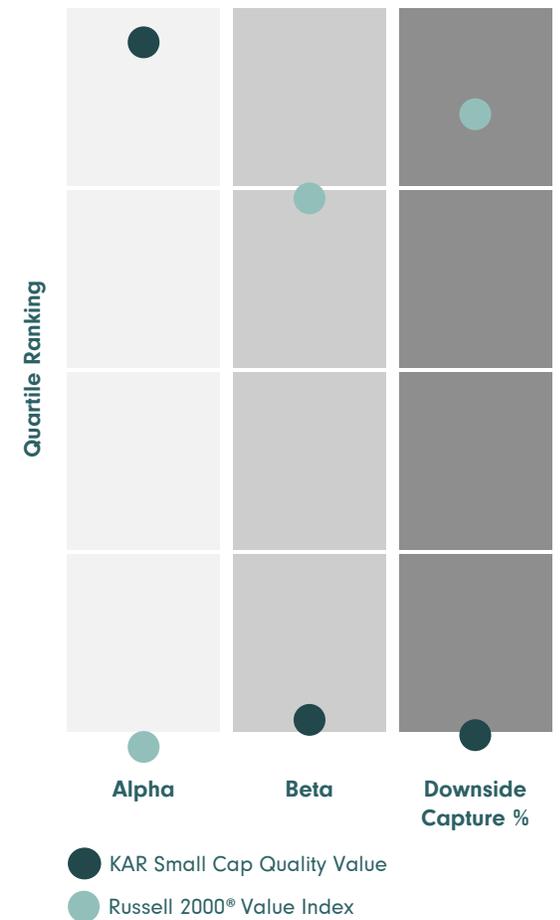
## Strong Risk-Adjusted Returns

Inception\* to March 31, 2017



## Peer Comparison Chart

Inception\* to March 31, 2017



## Historical Returns

	KAR Small Cap Quality Value (gross)	KAR Small Cap Quality Value (net) <sup>†</sup>	Russell 2000® Value Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of March 31, 2017			
1 <sup>st</sup> Quarter	4.91	4.65	(0.13)
One Year	25.13	23.90	29.37
Three Years	12.40	11.29	7.62
Five Years	13.73	12.60	12.54
Seven Years	14.96	13.83	11.59
Ten Years	9.72	8.63	6.09
Inception*	12.01	10.92	8.45

Year	KAR Small Cap Quality Value (%)	Russell 2000® Value Index (%)
2016	26.74	31.74
2015	(0.16)	(7.47)
2014	3.05	4.22
2013	41.06	34.52
2012	9.97	18.05
2011	6.57	(5.50)
2010	25.10	24.50
2009	26.97	20.58
2008	(28.51)	(28.92)
2007	2.19	(9.78)
2006	24.45	23.48
2005	8.88	4.71
2004	28.10	22.25
2003	21.88	46.03
2002	1.11	(11.43)
2001	19.42	14.02
2000	24.92	22.83
1999	(7.69)	(1.49)
1998 <sup>§</sup>	9.61	(10.93)

\*June 1, 1998

<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 1% annual fee.

<sup>§</sup>Performance calculations are for the seven months ended December 31, 1998.

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 Value Universe includes all managers categorized in the small cap value 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.

## Performance Statistics

Inception\* to March 31, 2017

	KAR Small Cap Quality Value	Russell 2000® Value Index
Annualized Return	12.01	8.45
Annualized Standard Deviation	16.16	18.39
Alpha	4.84	0.00
Beta	0.76	1.00
Sharpe Ratio	0.63	0.35
R-Squared	75.14	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, 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 Small 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 Small Cap Quality Value Portfolios. Small Cap Quality Value Portfolios are invested in equity securities with capitalizations consistent with the Russell 2000® Value 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® Value Index. The Russell 2000® Value Index is a market capitalization-weighted index of value-oriented stocks 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 independent verifiers. The composite was created in June 1998. 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 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 1/4th 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		21.64	26.42
2012		16.24	20.17
2013		14.50	16.05
2014		13.06	12.98
2015		13.94	13.65

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2000® Value Index Annual Return (%)	Internal Dispersion
2006	6,523	62	56	24.45	23.25	23.48	0.47
2007	5,392	107	61	2.19	1.18	(9.78)	0.56
2008	3,445	64	68	(28.51)	(29.26)	(28.92)	0.56
2009	4,010	71	66	26.97	25.73	20.58	0.80
2010	4,729	98	77	25.10	23.88	24.50	0.60
2011	5,232	521	106	10.57	5.54	(5.50)	0.48
2012	6,545	474	120	9.97	8.87	18.05	0.35
2013	7,841	646	142	41.06	39.72	34.52	1.17
2014	7,989	581	149	3.05	2.00	4.22	0.52
2015	8,095	535	151	(0.16)	(1.16)	(7.47)	0.20

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