

## Small Cap Sustainable Growth Portfolio

First Quarter 2017



### Portfolio Review

The Small Cap Sustainable Growth portfolio outperformed the Russell 2000 Growth Index during the first quarter. The portfolio was helped by strong stock selection in the technology and consumer discretionary sectors. Negative stock selection in the health care and materials sectors was the biggest detractor from performance.

Holdings that contributed the most to performance during the quarter were Autohome and MercadoLibre. Autohome's shares have been under pressure last year due to investments in a new car transaction business at the expense of near-term margins and management upheaval following Telstra's decision to sell its controlling stake to Ping An Insurance. With Ping An now in control, the new management team has refocused the business and begun implementing better expense discipline as evidenced by a reduction in headcount during the most recent quarter, which has been a positive for the share price. Given these positive first steps by new management, Autohome's competitive positioning and the expected long-term growth of the Chinese car market, we remain owners of the business. MercadoLibre's shares appreciated meaningfully in the first quarter after the company reported another strong quarter of results, including a 40% year-over-year increase in the number of items sold in its marketplace. Given the fact that Mercado's largest country by sales, Brazil, continues to be in a deep recession, these results were impressive.

Holdings that contributed the least to performance were Shutterstock and Omega Flex. Shutterstock's share price had rebounded in the first half of 2016 as concerns regarding the competitive threat from Adobe's new stock photo offering abated. However, a meaningful slowdown in revenue growth the past two quarters sent the share price lower. Profits from Shutterstock's stock photo business will remain depressed as management seeks growth by investing capital to grow other parts of the company where Shutterstock's competitive advantage is less clear. Omega Flex lagged in the quarter as it only partially reversed its rapid ascent in the fourth quarter of 2016. We continue to believe that the company's solid competitive position, in a niche market, will allow them to capitalize on a strengthening construction environment.

### Purchases and Sales

During the quarter, we purchased Interactive Brokers Group and sold Monro Muffler Brake, Shutterstock (see rationale above) and UFP Technologies.

Interactive Brokers Group is an electronic brokerage and market making company. The company is the clear low cost provider in an industry where costs are important to customers. As a result, the company has grown its customer account base at an industry-leading pace while significant remaining growth opportunities exist.

We sold Monro Muffler Brake as the company is experiencing persistent weak organic growth and deteriorating profitability.

We sold UFP Technologies as the company has been unable to regain historic levels of profitability.

### 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:** Growth  
**Index:** Russell 2000® Growth  
**Portfolio Inception:** 1998  
**Portfolio Assets:** \$1,099.9 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	31
<b>Todd Bailey, CFA</b> Portfolio Manager + Senior Research Analyst	18
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	22
<b>Julie Kutasov</b> Senior Research Analyst	16
<b>Craig Stone</b> Senior Research Analyst	28
<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 (%)
Fox Factory Holding	7.0
Ollie's Bargain Outlet Holdings	6.9
Autohome	5.9
HEICO	5.8
NVE	5.7
<b>Total</b>	<b>31.4</b>

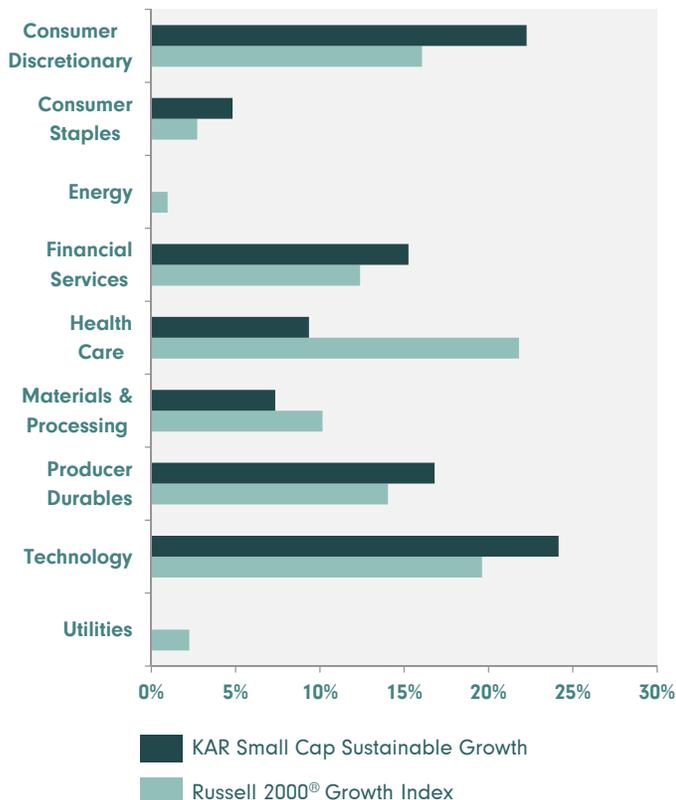
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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 2000® Growth 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>Typically Less than 5%</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 Sustainable Growth	Russell 2000® Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	24.4%	13.3%
Total Debt/EBITDA	1.0 x	3.8 x
Earnings Variance—Past 10 Years	31.1%	79.5%
<b>Growth</b>		
Earnings Per Share Growth—Past 10 Years	15.9%	8.9%
Capital Generation—{ROE x (1-Payout)}	18.9%	10.7%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	31.5 x	53.5 x
Free Cash Flow Yield†	3.3%	2.7%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—4 Qtr. Avg.	\$3.1 B	\$2.1 B
Largest Market Cap—4 Qtr. Avg.	\$9.6 B	\$8.3 B
Annualized Standard Deviation—Since Inception*	18.2%	23.3%

\*January 1, 1998

†Free cash flow data is as of December 31, 2016. Prices are as of March 31, 2017. Excludes financials.

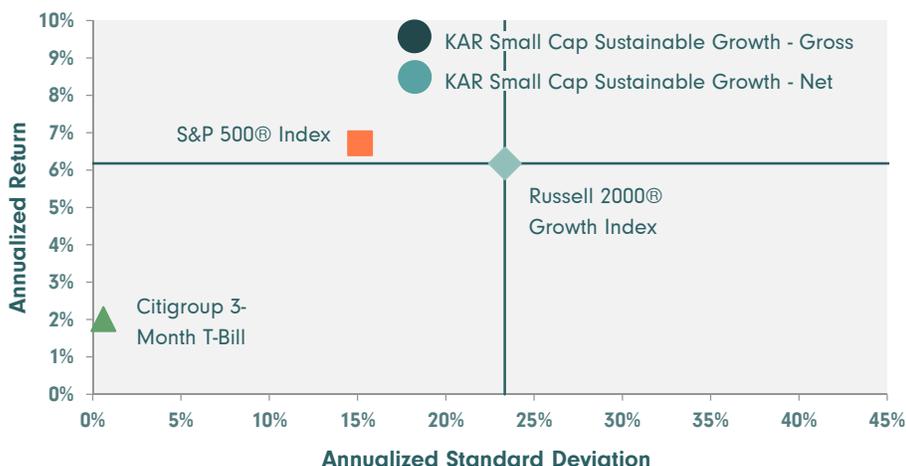
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics.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

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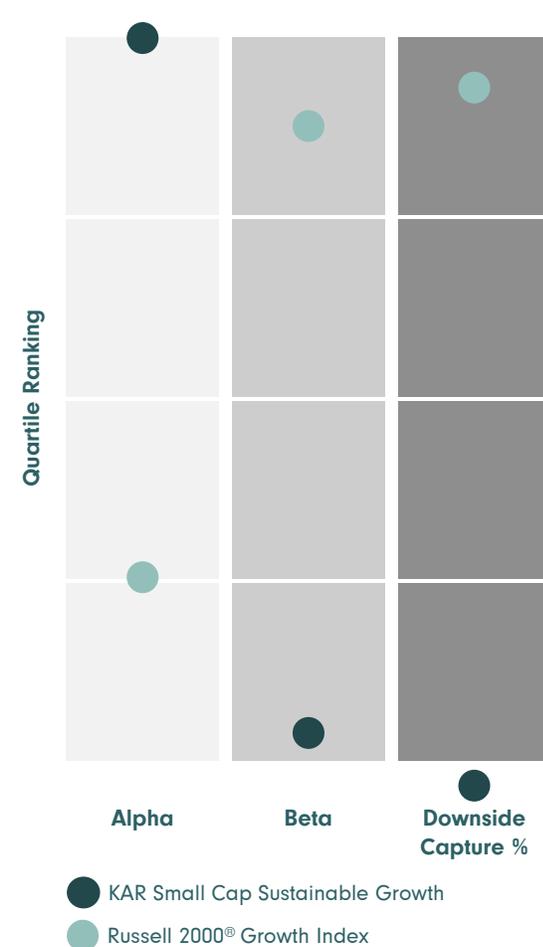
## Strong Risk-Adjusted Returns

Inception\* to March 31, 2017



## Peer Comparison Chart

Ten Years Ending March 31, 2017



## Historical Returns

	KAR Small Cap Sustainable Growth (gross)	KAR Small Cap Sustainable Growth (net) <sup>†</sup>	Russell 2000 <sup>®</sup> Growth Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of March 31, 2017			
1 <sup>st</sup> Quarter	6.09	5.83	5.35
One Year	25.23	24.01	23.03
Three Years	15.15	14.02	6.72
Five Years	16.20	15.05	12.10
Seven Years	16.90	15.75	12.88
Ten Years	11.16	10.06	8.06
Inception*	9.58	8.49	6.18

	KAR Small Cap Sustainable Growth (gross)	KAR Small Cap Sustainable Growth (net) <sup>†</sup>	Russell 2000 <sup>®</sup> Growth Index
<b>Annual Returns (%)</b>			
2016	26.11	24.88	11.32
2015	2.57	1.55	(1.38)
2014	6.47	5.40	5.60
2013	39.89	38.53	43.30
2012	13.29	12.16	14.59
2011	17.82	16.69	(2.91)
2010	14.82	13.69	29.09
2009	38.51	37.16	34.47
2008	(33.61)	(34.32)	(38.54)
2007	(0.59)	(1.59)	7.05
2006	15.80	14.66	13.35
2005	1.88	0.85	4.15
2004	12.82	11.68	14.31
2003	38.44	37.10	48.54
2002	(23.82)	(24.60)	(30.26)
2001	0.48	(0.49)	(9.23)
2000	6.28	5.22	(22.43)
1999	31.19	29.92	43.09
1998	3.33	2.28	1.23

\*January 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.

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 Growth Universe includes all managers categorized in the small cap growth 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 Sustainable Growth	Russell 2000 <sup>®</sup> Growth Index
Annualized Return	9.58	6.18
Annualized Standard Deviation	18.22	23.34
Alpha	4.47	0.00
Beta	0.66	1.00
Sharpe Ratio	0.42	0.18
R-Squared	72.47	100.00

## Small Cap Sustainable Growth Portfolio

First Quarter 2017

### 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 Sustainable Growth 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 Sustainable Growth Portfolios. Small Cap Sustainable Growth Portfolios are invested in equity securities with market capitalizations in line with the Russell 2000® 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 2000® Growth Index. The Russell 2000® Growth Index is a market capitalization-weighted index of growth-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 the independent verifiers. The composite was created in January 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	19.74	24.65
2012	15.54	21.01
2013	12.22	17.52
2014	12.35	14.02
2015	14.08	15.16

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2000® Growth Index Annual Return (%)	Internal Dispersion
2006	6,523	31	30	15.80	14.66	13.35	0.31
2007	5,392	21	25	(0.59)	(1.59)	7.05	0.53
2008	3,445	12	14	(33.61)	(34.32)	(38.54)	1.04
2009	4,010	11	11	38.51	37.16	34.47	0.94
2010	4,729	12	12	14.82	13.69	29.09	0.22
2011	5,232	180	14	17.82	16.69	(2.91)	0.51
2012	6,545	155	17	13.29	12.16	14.59	0.42
2013	7,841	232	23	39.89	38.53	43.30	1.42
2014	7,989	205	20	6.47	5.40	5.60	0.40
2015	8,095	244	17	2.57	1.55	(1.38)	0.40

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