

Small-Mid Cap Core Portfolio

First Quarter 2017

Portfolio Review

The Small-Mid Cap Core portfolio outperformed the Russell 2500 Index during the first quarter. The outperformance was primarily driven by positive stock selection in the financial services and consumer discretionary sectors. Negative stock selection in technology and an underweight in health care detracted from performance.

Positions that contributed most positively to performance during the quarter were MSCI and Wynn Resorts. MSCI continued to benefit from its leading positioning in the rapidly expanding exchange-traded fund (ETF) segment as well as an improved growth and profitability profile. Importantly, MSCI remains a strong free-cash-flow generator, returning excess capital to shareholders in the form of regular cash dividends and share repurchases. Wynn Resorts' shares showed strength in the quarter as the company's new Wynn Palace property in Macau continues to ramp up after last year's opening. More importantly, the Macau market is now showing a significant rebound in traffic and play. Given Wynn's heavy mix in the area, they should disproportionality benefit versus other gaming businesses. With infrastructure investments coming online over the next few years, the tailwind should be consistent and ongoing.

Positions that contributed most negatively to performance during the quarter were Winmark and Dril-Quip. Winmark reported strong results at its franchised locations, however, adding new franchises has been more challenging. Franchise fees declined over 50% year-over-year. This metric can be quite volatile for Winmark as it typically only signs up a few new locations every quarter. Leasing income was also lower, though again, this income source can vary materially from quarter to quarter as Winmark opportunistically finds avenues to lease equipment. Dril-Quip's shares lagged driven by continuous weakness in deep water drilling activity due to depressed crude oil prices. Our view of the company's long-term market positioning remains intact, however. We continue to believe that Dril-Quip is better protected both as a "best of breed" mission-critical equipment supplier and a low cost manufacturer. 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 in the form of opportunistic share repurchases), and the company's balance sheet remains pristine with plenty of cash and no debt.

Purchases and Sales

During the quarter, we bought positions in Cotiviti Holdings and Lennox International, and sold our position in Watsco.

Cotiviti provides analytics-driven payment accuracy solutions primarily for the health-care sector. As health care moves from fee-for-service to more value-based outcomes, the ability to identify claims errors should be more important than ever. As the leader in prospective claims and retrospective claims, Cotiviti can scale their technology at a faster rate than peers and thus create a network effect in their ability to more efficiently analyze data.

Lennox manufactures a wide variety of heating, ventilation, air conditioning (HVAC) and refrigeration products. Lennox has an established brand that is recognized by both HVAC contractors and end-market consumers. Being the second-largest residential HVAC manufacturer enables Lennox to leverage fixed costs, obtain purchase discounts and benefit from nationwide marketing campaigns.

We sold Watsco to purchase Lennox. These two companies both compete in the HVAC industry but Lennox's larger market cap is a more appropriate fit for the portfolio.

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-Mid Cap
Sub-Style: Core
Index: Russell 2500™
Portfolio Inception: 1992
Portfolio Assets: \$1,542.5 M
Portfolio Turnover: 25%–35%

Investment Management Team

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

Top Five Holdings

As of March 31, 2017

Company	Percent of equity (%)
Equifax	5.2
RBC Bearings	5.0
Nordson	4.7
WABCO Holdings	4.4
Cooper Companies	4.3
Total	23.6

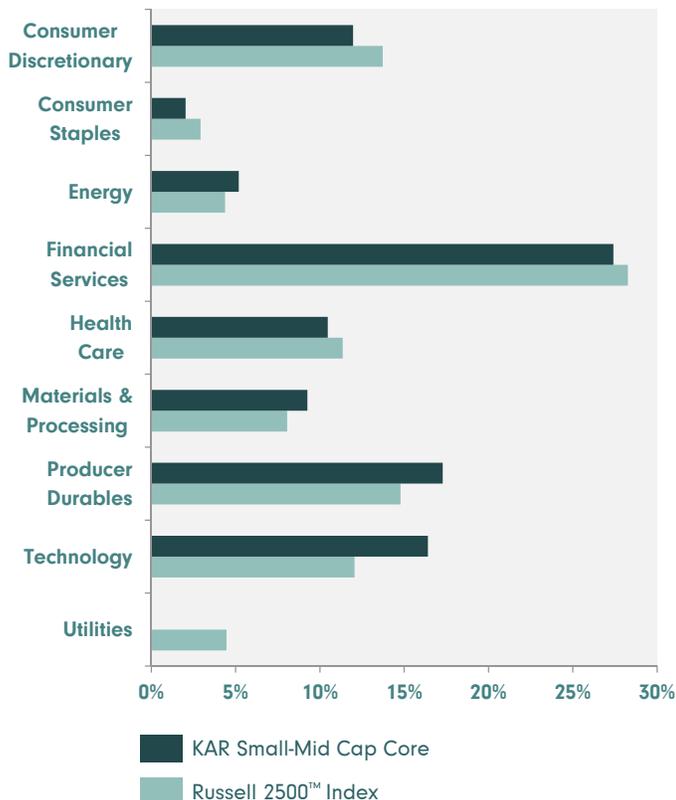
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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 2500™ 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"> Fully invested 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 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-Mid Cap Core	Russell 2500™ Index
Quality		
Return on Equity—Past 5 Years	21.5%	11.7%
Total Debt/EBITDA	2.1 x	4.7 x
Earnings Variance—Past 10 Years	31.6%	77.2%
S&P Stock Ranking (A+, A, A-, B+)	64.9%	30.4%
Growth		
Earnings Per Share Growth—Past 5 Years	9.9%	9.8%
Earnings Per Share Growth—Past 10 Years	13.6%	7.8%
Dividend Per Share Growth—Past 5 Years	14.1%	10.7%
Dividend Per Share Growth—Past 10 Years	14.6%	5.4%
Capital Generation—{ROE x (1-Payout)}	16.3%	8.6%
Value		
P/E Ratio—Trailing 12 Months	27.3 x	33.6 x
Dividend Yield	0.8%	1.5%
Free Cash Flow Yield†	4.0%	3.0%
Market Characteristics		
\$ Weighted Average Market Cap—4 Qtr. Avg.	\$7.3 B	\$4.2 B
Largest Market Cap—4 Qtr. Avg.	\$19.7 B	\$15.0 B
Annualized Standard Deviation—Since Inception*	14.2%	17.3%

*April 1, 1992

†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.

Small-Mid Cap Core Portfolio

First Quarter 2017

Strong Risk-Adjusted Returns

Inception* to March 31, 2017



Historical Returns

	KAR Small-Mid Cap Core (gross)	KAR Small-Mid Cap Core (net) [‡]	Russell 2500™ Index
Annualized Returns (%)[†]			
As of March 31, 2017			
1 st Quarter	6.69	6.45	3.76
One Year	19.98	18.92	21.53
Three Years	14.11	13.10	7.43
Five Years	13.81	12.81	12.60
Seven Years	14.18	13.18	12.73
Ten Years	9.13	8.13	7.71
Inception*	11.18	10.11	10.71
Annual Returns (%)			
2016	17.30	16.26	17.59
2015	6.16	5.23	(2.90)
2014	9.74	8.74	7.07
2013	31.61	30.47	36.80
2012	8.82	7.90	17.88
2011	8.45	7.56	(2.51)
2010	20.46	19.27	26.71
2009	30.58	29.31	34.39
2008	(30.20)	(30.92)	(36.79)
2007	0.35	(0.66)	1.38
2006	13.83	12.71	16.17
2005	3.13	2.09	8.11
2004	14.19	13.03	18.29
2003	24.81	23.60	45.51
2002	(16.98)	(17.83)	(17.80)
2001	5.06	4.03	1.22
2000	23.80	22.58	4.27
1999	6.09	5.06	24.14
1998	21.39	20.20	0.38
1997	20.82	19.63	24.36
1996	27.00	25.74	19.03
1995	17.47	16.30	31.70
1994	2.75	1.74	(1.05)
1993	20.00	18.84	16.55
1992 [§]	9.65	8.85	11.36

*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 0.90% 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-Mid Cap Core Universe includes all managers categorized in the small-mid 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

Seven Years Ending March 31, 2017



Performance Statistics

Inception* to March 31, 2017

	KAR Small-Mid Cap Core	Russell 2500™ Index
Annualized Return	11.18	10.71
Annualized Standard Deviation	14.18	17.30
Alpha	2.56	0.00
Beta	0.72	1.00
Sharpe Ratio	0.61	0.47
R-Squared	76.32	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-Mid Cap Core 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-Mid Cap Core Portfolios. Small-Mid Cap Core Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2500™ 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 2500™ Index. The Russell 2500™ Index is a market capitalization-weighted index of the 2,500 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 July 2000. 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. From July 1, 2000 to December 31, 2010, only non-taxable Small-Mid Cap Core Portfolios are included in the composite. As of January 1, 2011, the composite was redefined to include both taxable and tax-exempt accounts. This composite contained 0.23% non-fee-paying portfolios as of December 31, 2013 and 0.7% non-fee-paying portfolios as of December 31, 2014.

The standard management fee schedule currently in effect is as follows: 0.90% for the first \$25 million; 0.80% on the next \$25 million; 0.75% on the next \$50 million; 0.60% on the balance. Prior to January 1, 2013, the standard management fee schedule in effect for this strategy was as follows: 0.85% for the first \$25 million; 0.70% on the next \$25 million; 0.60% on the next \$50 million; 0.50% 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. Prior to January 1, 2011, the highest tier assumed of the standard management fee schedule for this product was 1.00%.

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	18.53	23.73
2012	15.19	19.24
2013	12.17	15.85
2014	10.27	11.84
2015	12.23	12.59

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2500™ Index Annual Return (%)	Internal Dispersion
2006	6,523	59	19	13.83	12.71	16.17	0.19
2007	5,392	51	16	0.35	(0.66)	1.38	0.57
2008	3,445	17	14	(30.20)	(30.92)	(36.79)	0.17
2009	4,010	22	12	30.58	29.31	34.39	0.47
2010	4,729	25	9	20.46	19.27	26.71	0.13
2011	5,232	37	25	8.45	7.56	(2.51)	0.13
2012	6,545	40	26	8.82	7.90	17.88	0.12
2013	7,841	59	27	31.61	30.47	36.80	0.24
2014	7,989	21	20	9.74	8.74	7.07	0.26
2015	8,095	21	18	6.16	5.23	(2.90)	0.23

The Russell 2500™ Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.