

Small-Mid Cap Core Portfolio

Second Quarter 2017

Portfolio Review

The Small-Mid Cap Core portfolio underperformed the Russell 2500 Index during the second quarter. The underperformance was primarily driven by negative stock selection in the producer durables and technology sectors. Positive stock selection in the consumer discretionary and consumer staples sectors contributed the most to performance.

In the second quarter, the biggest contributors to performance were Cooper Companies and Wynn Resorts. Cooper Companies saw its shares gain nicely in the quarter, as revenues increased due to strong sales in its silicon hydrogel daily lens product. Overall, the company is growing faster than the contact lens industry. 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 benefit disproportionality compared to other gaming businesses. With infrastructure investments coming online over the next few years, tailwinds should be consistent and ongoing.

Positions that detracted the most from performance during the quarter were Fastenal and Core Laboratories. Fastenal was relatively weak due to concerns about competitive dynamics in the industry. We share these concerns, as enhanced competition could weigh on margins and returns for multiple years to come. Therefore, we sold our position during the quarter. Core Laboratories' shares lagged due to challenging operating conditions driven by depressed crude oil prices. We continue to believe that Core Labs, with its comprehensive portfolio of value added products, is well positioned to assist major oil companies in enhancing project economics through improved recovery. Importantly, the company remains a strong free-cash-flow generator, returning excess cash to shareholders in the form of cash dividends and share repurchases.

Purchases and Sales

During the quarter, we sold our positions in Fastenal (see above) and TripAdvisor.

Our initial investment in TripAdvisor was based on the company's network effect in driving consumers' usage of reviews to increase user engagement that could create a virtuous cycle and accelerate bookings over time. However, what has developed is that the company's lack of ability to transition the user experience into profitable growth has created a weakness in this network effect. In addition, the instant book feature has not been effective as users are utilizing the website for research, but are booking through other venues. Overall, our loss of confidence in management's ability to allocate resources effectively combined with the competitive environment evolving faster than TripAdvisor led us to sell our shares.

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-Mid Cap
Sub-Style: Core
Index: Russell 2500™
Portfolio Inception: 1992
Portfolio Assets: \$1,624.0 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 June 30, 2017

Company	Percent of equity (%)
RBC Bearings	5.3
Equifax	5.2
Cooper Companies	5.2
Signature Bank	5.0
WABCO Holdings	4.8
Total	25.5

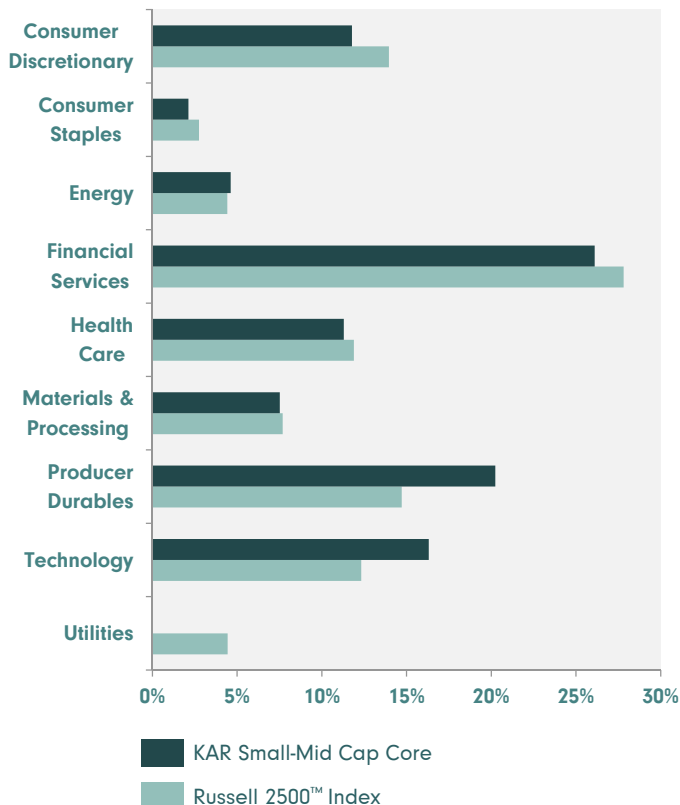
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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 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-Mid Cap Core	Russell 2500™ Index
Quality		
Return on Equity—Past 5 Years	20.7%	11.9%
Total Debt/EBITDA	2.2 x	4.8 x
Earnings Variance—Past 10 Years	30.4%	73.8%
S&P Stock Ranking (A+, A, A-, B+)	63.8%	29.0%
Growth		
Earnings Per Share Growth—Past 5 Years	9.2%	9.3%
Earnings Per Share Growth—Past 10 Years	14.7%	8.1%
Dividend Per Share Growth—Past 5 Years	13.1%	10.4%
Dividend Per Share Growth—Past 10 Years	13.6%	6.4%
Capital Generation—{ROE x (1-Payout)}	15.9%	8.8%
Value		
P/E Ratio—Trailing 12 Months	27.2 x	32.8 x
Dividend Yield	0.8%	1.5%
Free Cash Flow Yield†	4.0%	2.7%
Market Characteristics		
\$ Weighted Average Market Cap—4 Qtr. Avg.	\$7.4 B	\$4.4 B
Largest Market Cap—4 Qtr. Avg.	\$18.2 B	\$15.3 B
Annualized Standard Deviation—Since Inception*	14.1%	17.2%

*April 1, 1992

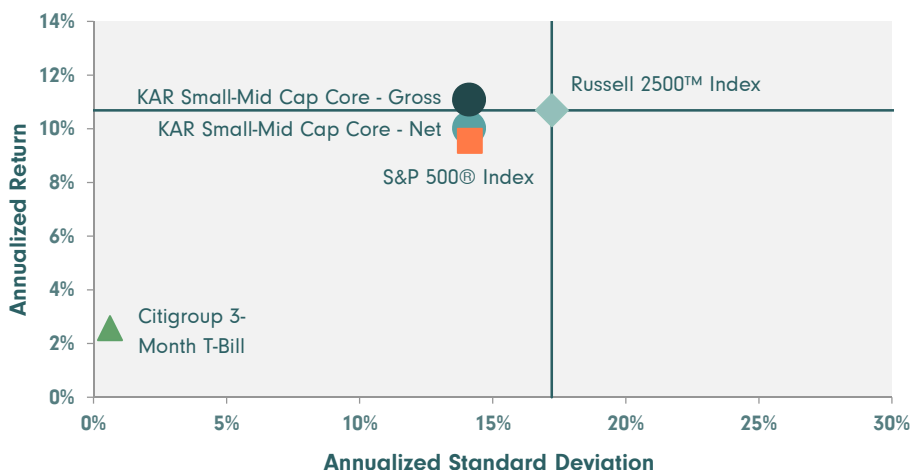
†Free cash flow data is as of March 31, 2017. Prices are as of June 30, 2017. Excludes financials. This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable.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

Small-Mid Cap Core Portfolio

Second Quarter 2017

Strong Risk-Adjusted Returns

Inception* to June 30, 2017



Historical Returns

	KAR Small-Mid Cap Core (gross)	KAR Small-Mid Cap Core (net) [†]	Russell 2500™ Index
Annualized Returns (%)[†]			
As of June 30, 2017			
2 nd Quarter	0.73	0.50	2.13
Year to Date	7.45	6.97	5.97
One Year	17.05	16.02	19.84
Three Years	12.29	11.29	6.93
Five Years	15.24	14.22	14.04
Seven Years	15.47	14.46	14.78
Ten Years	9.07	8.08	7.42
Inception*	11.09	10.03	10.69

Annual Returns (%)	KAR Small-Mid Cap Core (gross)	KAR Small-Mid Cap Core (net)	Russell 2500™ Index
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	24.36
1997	20.82	19.63	19.03
1996	27.00	25.74	31.70
1995	17.47	16.30	16.55
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

Ten Years Ending June 30, 2017



Performance Statistics

Inception* to June 30, 2017

	KAR Small-Mid Cap Core	Russell 2500™ Index
Annualized Return	11.09	10.69
Annualized Standard Deviation	14.11	17.22
Alpha	2.50	0.00
Beta	0.72	1.00
Sharpe Ratio	0.61	0.47
R-Squared	76.30	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-Mid 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 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, 0.7% non-fee-paying portfolios as of December 31, 2014, 0.7% non-fee-paying portfolios as of December 31, 2015 and 0.5% non-fee-paying portfolios as of December 31, 2016.

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 1/12th 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. 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
2016		12.63	13.86

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
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
2016	9,989	34	39	17.30	16.26	17.59	0.13

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