

## Small-Mid Cap Core Portfolio

Fourth Quarter 2017

### Portfolio Review

The Small-Mid Cap Core portfolio outperformed the Russell 2500 Index during the fourth quarter. Positive stock selection in the producer durables and financial services sectors helped boost performance, while negative stock selection in health care detracted.

Names that contributed the most to performance were Nordson and Primerica.

Nordson raised its forward guidance substantially as the company saw a large increase in its backlog orders during a typically slower time of year. The company has done well in diversifying its business—with almost 15% of total revenues coming from medical and about half of revenue sourced from parts and consumables—which should help dampen the effects of its more cyclical electronics business.

There was some concern about Primerica among analysts and investors that new life insurance policies being sold were of lower quality (i.e. terminate faster than normal, a.k.a. “lapsation”). Management had stressed that this was not the case and that recent experience was well within the historical range. Lapsation declined in the most recent quarter, and earnings were better than expected, both of which drove the stock higher. We continue to expect Primerica’s unique distribution model and good stewardship of capital to result in sustainable long-term earnings growth.

Positions that detracted the most from performance were Cotiviti Holdings and Cooper Companies.

Cotiviti Holdings saw its shares underperform in the quarter despite posting solid financial results. The company projected weaker-than-expected revenue guidance due to timing issues with some clients as their implementation and revenue recognition had taken longer than expected. We view these matters as transitory and not indicative of any structural competitive issues.

Cooper saw its shares underperform in the quarter as the growth rate in revenues in its vision segment slowed relative to that of the overall U.S. market. We believe this is partially explained by the more difficult comparison Cooper had versus last year than did the market.

### Purchases and Sales

During the fourth quarter, we purchased POOLCORP and sold Dentsply Sirona.

POOLCORP is the world’s largest wholesale distributor of swimming pool supplies, equipment and related leisure products, with approximately 100,000 wholesale customers around the world. POOL’s market share in the domestic pool supply distribution business, which accounts for more than 80% of sales, is over 40%, while its nearest competitor has less than 4% market share. This dramatic difference in size gives POOL purchasing power advantages that allow the company to price competitively and provide value-added services to customers, while attaining superior profitability.

Dentsply Sirona has done well for us over many years, originally as Sirona alone and to a lesser extent since the merger with Dentsply in late 2015. We continue to admire the company’s CAD/CAM business with its CEREC product and other chairside offerings. The addition of Dentsply brought on a more consumable mix to the business, which we believed could sustain growth and create a less cyclical business overall. However, we’ve seen weakening trends in different aspects of the business over the past few quarters, including a slowing in the CAD/CAM segment. The consumables side has seen decent growth, but there appears to be mounting commoditization as online peers gain ground. Additionally, there appears to be execution issues that we believe should have been addressed long ago to avoid any impact given benign dental industry growth. The company also announced the resignation of three senior executives—the CEO, president and executive chairman. All of these issues combined provoked us to sell our position in the company.

### Outlook

The outlook for 2018 is favorable overall, but to expect another 2017 would be unreasonable. More volatility and drawdowns are anticipated in 2018 as markets return to more normal conditions. 2018 should continue to provide investors with mid-to-high single-digit equity returns but most likely not without a bumpy ride along the way. Investors should review their asset allocation and make sure they can “sleep at night” with their current equity exposure. We will continue to own high-quality businesses that can shine in good and bad times and have competitive protections.

### Portfolio Highlights

**Style:** Small-Mid Cap  
**Sub-Style:** Core  
**Index:** Russell 2500™  
**Portfolio Inception:** 1992  
**Portfolio Assets:** \$1,992.1 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	31
<b>Jon Christensen, CFA</b> Portfolio Manager + Senior Research Analyst	22
<b>Julie Kutasov</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>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 December 31, 2017

Company	Percent of equity (%)
RBC Bearings	5.8
Wynn Resorts	5.1
Nordson	4.9
WABCO Holdings	4.6
CDW	4.6
<b>Total</b>	<b>25.0</b>

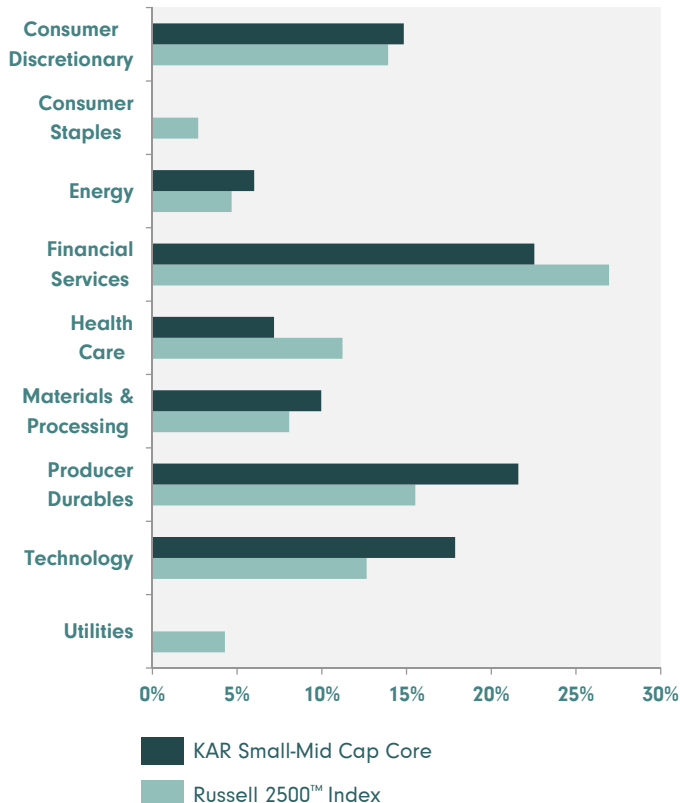
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor’s opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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>25–35 Stocks</b>  <b>Position Weights</b> <ul style="list-style-type: none"> <li>• Typically 3%-4%</li> <li>• Maximum weight 10% (at market)</li> </ul> <b>Sector Tolerances</b> <ul style="list-style-type: none"> <li>• Typically +/- 10% of the Russell 2500™ Index, utilizing Russell sector classifications</li> </ul> <b>Holding Period</b> <ul style="list-style-type: none"> <li>• Typically 3-to-5 years, but is often longer</li> <li>• Portfolio turnover is typically 25% to 35%</li> </ul> <b>Cash Levels</b> <ul style="list-style-type: none"> <li>• Typically will not exceed 10% once a portfolio is fully invested</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 December 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 December 31, 2017

	KAR Small-Mid Cap Core	Russell 2500™ Index
<b>Quality</b>		
Return on Equity—Past 5 Years	22.8%	12.1%
Total Debt/EBITDA	2.2 x	5.0 x
Earnings Variance—Past 10 Years	38.5%	72.4%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	7.4%	8.9%
Earnings Per Share Growth—Past 10 Years	15.3%	8.3%
Dividend Per Share Growth—Past 5 Years	8.5%	10.2%
Dividend Per Share Growth—Past 10 Years	14.1%	7.0%
Capital Generation—{ROE x (1-Payout)}	17.4%	8.7%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	27.3 x	34.2 x
Dividend Yield	0.7%	1.4%
Free Cash Flow Yield†	3.5%	2.7%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$7.1 B	\$4.3 B
Largest Market Cap—3-Year Avg.	\$19.7 B	\$14.4 B
Annualized Standard Deviation—Since Inception*	14.0%	17.1%

\*April 1, 1992

†Free cash flow data is as of September 30, 2017. Prices are as of December 31, 2017. Excludes financials.

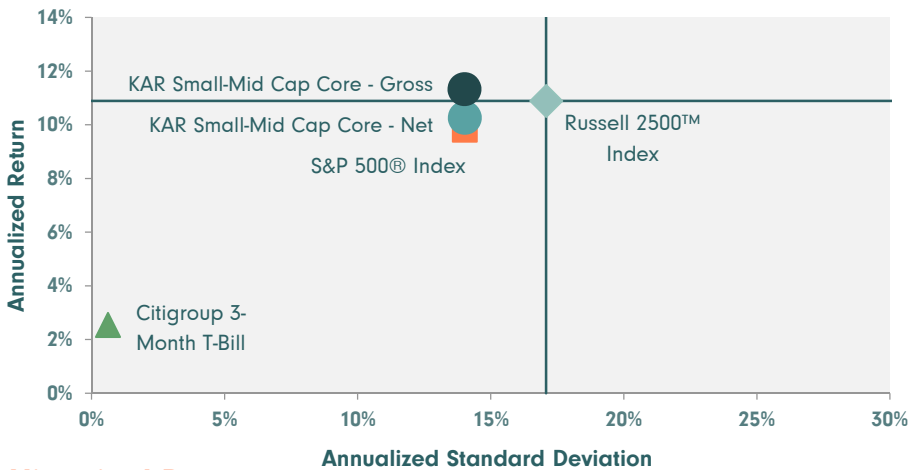
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics.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

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Fourth Quarter 2017

## Strong Risk-Adjusted Returns

Inception\* to December 31, 2017



## Historical Returns

	KAR Small-Mid Cap Core (gross)	KAR Small-Mid Cap Core (net) <sup>‡</sup>	Russell 2500™ Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of December 31, 2017			
4 <sup>th</sup> Quarter	8.34	8.10	5.24
One Year	19.55	18.50	16.81
Three Years	14.19	13.18	10.07
Five Years	16.54	15.51	14.33
Seven Years	14.23	13.23	12.25
Ten Years	10.79	9.78	9.22
Inception*	11.33	10.26	10.89
<b>Annual Returns (%)</b>			
2017	19.55	18.50	16.81
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 <sup>§</sup>	9.65	8.85	11.36

\*April 1, 1992

<sup>†</sup>All periods less than one year are total returns and are not annualized. Returns are preliminary.

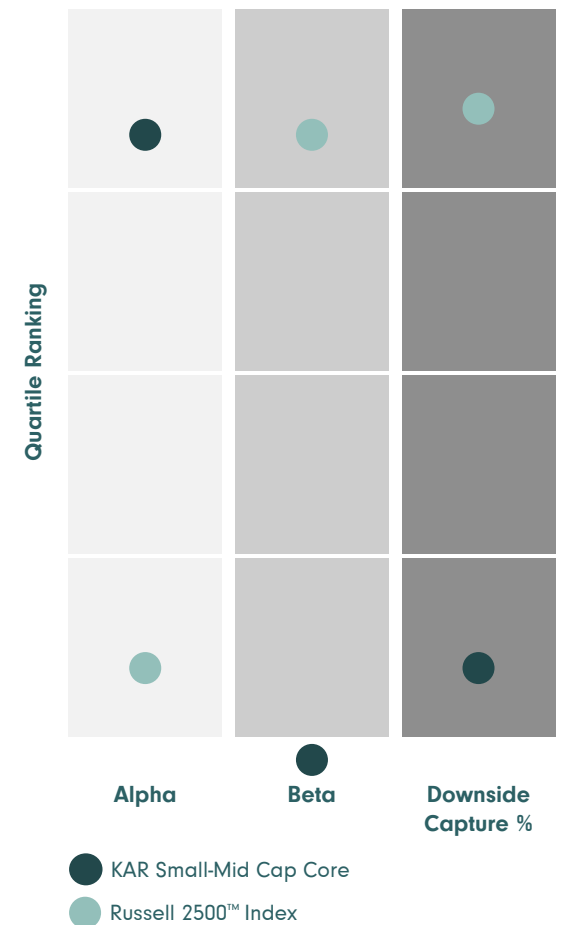
<sup>‡</sup>Net of all fees and expenses. Assumes a 0.90% annual fee.

<sup>§</sup>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 December 31, 2017



## Performance Statistics

Inception\* to December 31, 2017

	KAR Small-Mid Cap Core	Russell 2500™ Index
Annualized Return	11.33	10.89
Annualized Standard Deviation	14.01	17.08
Alpha	2.59	0.00
Beta	0.72	1.00
Sharpe Ratio	0.63	0.49
R-Squared	76.28	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, 2016.

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, 2016. 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% 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 1/12<sup>th</sup> 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.