

Small-Mid Cap Quality Value Portfolio

First Quarter 2017



Portfolio Review

The Small-Mid Cap Quality Value portfolio outperformed the Russell 2500 Value Index during the first quarter. The portfolio was helped by strong stock selection in the financial services and producer durables sectors. Negative stock selection in the health care and consumer staples sectors were the biggest detractors from performance.

Positions that contributed most positively to performance during the quarter were Skyworks and MSCI. Once again Skyworks reported solid demand for its products, with a pickup at its largest customer Apple, as well as very good growth in China. While the company has been slow to diversify away from Apple given the material content growth with that customer, the expected launch in 2017 of the new iPhone could drive material profit growth for the company. MSCI continued to benefit from its leading positioning in the rapidly expanding exchange-traded fund (ETF) segment, as well as from 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.

Positions that contributed most negatively to performance during the quarter were Cass Information Systems and Anika Therapeutics. Cass' shares lagged after rising sharply in November 2016 following the U.S. presidential election, driven by investor expectations of rising short-term interest rates, higher fuel prices, and meaningful economic stimulus through tax reform, infrastructure spending and deregulation. Importantly, our investment thesis in the company remains intact, and Cass remains a solid free cash flow generator that returns excess cash to shareholders in the form of regular cash dividends, opportunistic stock dividends and share repurchases. Anika Therapeutics saw its shares slide in the first quarter after increasing almost 25% in the last quarter. The company recently announced solid revenue growth while operating expenses were slightly higher due to higher expenses for FDA trials. The company has a solid balance sheet and is projecting mid-teen revenue growth in 2017.

Purchases and Sales

In the quarter, we purchased HFF and sold our position in CEB.

HFF is a broker in the U.S. commercial real estate market. Our favorable opinion of HFF is based on the company's unmatched reputation for objective and sophisticated commercial real estate advice, which is underpinned by the firm's unique and difficult-to-replicate culture.

CEB announced in January that it was being acquired by Gartner, Inc. Consideration for the transaction (which has been unanimously approved by each company's board of directors) will consist of \$54 in cash and 0.2284 shares of Gartner stock for each share of CEB stock at closing. 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-Mid Cap
Sub-Style: Value
Index: Russell 2500™ Value
Portfolio Inception: 2008
Portfolio Assets: \$429.2 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 Bailey, 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 (%)
Cinemark Holdings	4.6
RBC Bearings	4.5
Cheesecake Factory	4.4
Graco	4.1
Skyworks Solutions	4.0
Total	21.6

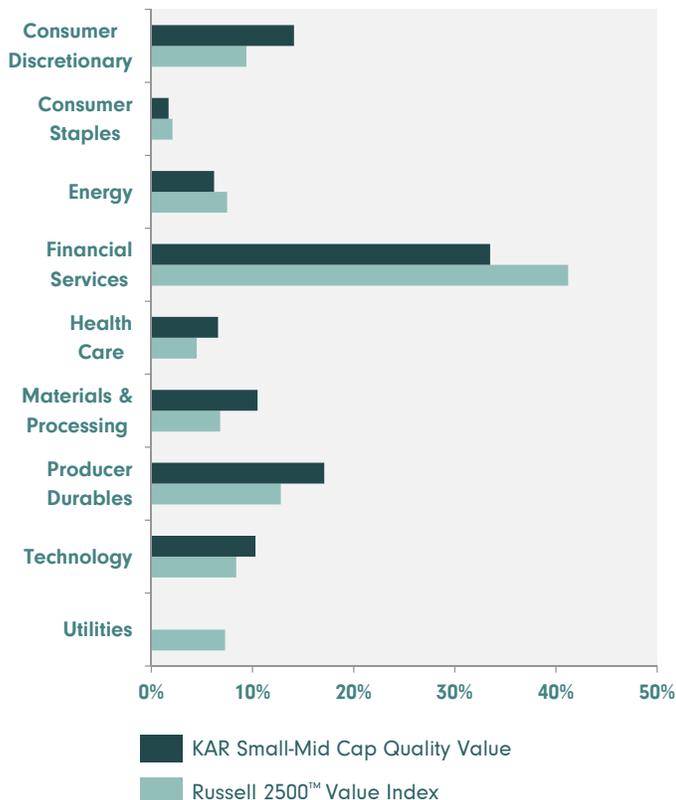
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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
<p>200 Stocks</p> <p>Quantitative Screens</p> <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 <p>Other Resources</p> <ul style="list-style-type: none"> Research on existing portfolio holdings Meetings with companies Industry reviews Investment conferences Third-party research 	<p>50–60 Stocks</p> <p>Qualitative Analysis</p> <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 <p>Financial Analysis</p> <ul style="list-style-type: none"> Evaluate basis for superior profitability, long-term growth potential, and ability to allocate capital appropriately <p>Valuation Analysis</p> <ul style="list-style-type: none"> Determine the current and potential value of the business 	<p>23–35 Stocks</p> <p>Position Weights</p> <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) <p>Sector Tolerances</p> <ul style="list-style-type: none"> +/- 10% of the sector weights of the Russell 2500™ Value Index <p>Holding Period</p> <ul style="list-style-type: none"> Typically 3-to-5 years Portfolio turnover is typically 25% to 35% <p>Cash Levels</p> <ul style="list-style-type: none"> Fully invested Max cash position is 10% 	<p>Extended Valuation</p> <p>Portfolio Upgrade</p> <p>Diversification Requirements</p> <p>Acquisition Activity</p> <p>Negative Company or Industry Changes</p>
<p>Higher Quality Stronger, More Consistent Growth Better Value</p>			

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 Quality Value	Russell 2500™ Value Index
Quality		
Return on Equity—Past 5 Years	22.0%	8.6%
Total Debt/EBITDA	1.8 x	6.0 x
Earnings Variance—Past 10 Years	25.0%	85.2%
S&P Stock Ranking (A+, A, A-, B+)	77.9%	26.3%
Growth		
Earnings Per Share Growth—Past 5 Years	10.4%	7.8%
Earnings Per Share Growth—Past 10 Years	9.8%	5.1%
Dividend Per Share Growth—Past 5 Years	14.6%	9.2%
Dividend Per Share Growth—Past 10 Years	13.0%	3.5%
Capital Generation—{ROE x (1-Payout)}	13.5%	5.8%
Value		
P/E Ratio—Trailing 12 Months	24.6 x	29.5 x
Dividend Yield	1.6%	2.0%
Free Cash Flow Yield†	5.0%	3.3%
Market Characteristics		
\$ Weighted Average Market Cap—4 Qtr. Avg.	\$5.7 B	\$4.1 B
Largest Market Cap—4 Qtr. Avg.	\$20.4 B	\$14.7 B
Annualized Standard Deviation—Since Inception*	16.8%	19.3%

*January 1, 2008

†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 Quality Value Portfolio

First Quarter 2017

Strong Risk-Adjusted Returns

Inception* to March 31, 2017



Peer Comparison Chart

Inception* to March 31, 2017



Historical Returns

	KAR Small-Mid Cap Quality Value (gross)	KAR Small-Mid Cap Quality Value (net) [†]	Russell 2500 [™] Value Index
Annualized Returns (%)[†]			
As of March 31, 2017			
1 st Quarter	5.30	5.07	1.62
One Year	17.28	16.25	23.13
Three Years	11.13	10.14	7.55
Five Years	13.52	12.52	12.92
Seven Years	14.68	13.67	12.31
Inception*	12.59	11.56	8.60

	KAR Small-Mid Cap Quality Value	Russell 2500 [™] Value Index
Annual Returns (%)		
2016	19.69	25.20
2015	(0.58)	(5.49)
2014	8.88	7.11
2013	36.30	33.32
2012	11.01	19.21
2011	7.40	(3.36)
2010	25.83	24.82
2009	32.52	27.68
2008	(19.00)	(31.99)

Performance Statistics

Inception* to March 31, 2017

	KAR Small-Mid Cap Quality Value	Russell 2500 [™] Value Index
Annualized Return	12.59	8.60
Annualized Standard Deviation	16.79	19.26
Alpha	4.98	0.00
Beta	0.83	1.00
Sharpe Ratio	0.74	0.43
R-Squared	90.07	100.00

*January 1, 2008

[†]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.

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 Value Universe includes all managers categorized in the small-mid 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.

Small-Mid Cap Quality Value 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-Mid Cap Quality Value Composite has been examined for the period from January 1, 2012 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 is defined as all fully discretionary institutional and pooled Small-Mid Cap Quality Value Portfolios (including cash) under management for at least one full quarter. Small-Mid Cap Quality Value Portfolios are invested in equity securities with market capitalizations consistent

with the Russell 2500™ 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 2500™ Value Index. The Russell 2500™ Value Index is a market capitalization-weighted index of value-oriented stocks 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 June 2008. 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. 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. This composite contained 0.16% non-fee-paying portfolios as of December 31, 2013 and 0.2% non-fee-paying portfolios as of December 31, 2014.

The standard fee schedule 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. Actual management fees charged may vary depending on applicable fee schedules and portfolio size, among other things. Additional

information may be found in Part IIA 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 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	20.08	24.57
2012	13.97	18.67
2013	12.01	15.29
2014	10.66	11.41
2015	12.25	12.19

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2500™ Value Index Annual Return (%)	Internal Dispersion
2008	3,445	< 1	< 5	(19.00)	(19.84)	(31.99)	N/A
2009	4,010	< 1	< 5	32.52	31.23	27.68	N/A
2010	4,729	< 1	< 5	25.83	24.61	24.82	N/A
2011	5,232	1	< 5	7.40	6.52	(3.36)	N/A
2012	6,545	85	< 5	11.01	10.07	19.21	N/A
2013	7,841	138	6	36.30	35.12	33.32	0.13
2014	7,989	140	12	8.88	7.89	7.11	0.09
2015	8,095	371	17	(0.58)	(1.47)	(5.49)	0.05

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