

Small-Mid Cap Quality Value Portfolio

Third Quarter 2017



Portfolio Review

The Small-Mid Cap Quality Value portfolio underperformed the Russell 2500 Value Index during the third quarter. The underperformance was primarily driven by negative stock selection in the consumer discretionary and energy sectors. Performance was helped by strong stock selection and an overweight in the materials and processing sector and strong stock selection in the technology sector.

Positions that contributed most positively to performance during the quarter were RBC Bearings and Anika Therapeutics. RBC Bearings' stock outperformed as the company benefited from an influx of commercial aircraft deliveries, a rebound in industrial end markets and an improving margin profile. We remain optimistic about RBC's competitive position in aerospace and defense, and the long-term outlook for the business.

Anika Therapeutics saw its shares appreciate in the quarter as solid sales growth from Monovisc and Orthovisc has allowed the products to continue to gain market share. Pricing stability of its products has also allowed for sustained gross margins.

Positions that detracted the most from performance during the quarter were Patterson Companies and Cheesecake Factory. Patterson Companies' shares exhibited weakness in the quarter after reporting lackluster financials as the winding down of the distribution deal with DENTSPLY adds to the company's uncertainty going forward. We believe the distribution noise should calm down over the next few quarters and new deals signed with Align, Danaher and 3Shape should offset some of this weakness. The company is also in the midst of a search for a new CEO.

Cheesecake Factory reported somewhat weaker-than-expected results last quarter. There is some weakness occurring at lunch time and we remain concerned that some of the challenges in mall traffic are impacting the company. We met with management and were impressed with the operating improvements of the company, as well as incremental opportunities to drive top-line growth. The international opportunity remains sizeable and the Cheesecake factory has been very discerning in choosing partners. We expect near-term trends to remain choppy but expect the company to focus on execution in a competitive market.

Purchases and Sales

In the Small-Mid Cap Quality Value portfolio, we did not make any complete purchases, and we sold our positions in Equifax and FactSet Research Systems.

Equifax disclosed a massive cybersecurity breach with criminals having gained access to personal information of roughly 143 million U.S. consumers over the period from mid-May 2017 through July 29, 2017 when the breach was uncovered. We are disappointed, however, not just by the vast scale of the breach but also by its duration and an over month-long disclosure lag. These were particularly concerning considering the importance of the credit bureau's reputation as a trusted consumer data repository. Even assuming the best case scenario of a "contained" outcome, it is clear that the company will remain under significant pressure in the near-to-medium term due to additional investment in IT/data security infrastructure, potential litigation liability not covered by insurance, increased regulatory oversight and negative media coverage. With these considerations in mind, we exited our position in Equifax.

FactSet's organic revenue growth has been moderating recently as more active manager customers shut down or become increasingly cost-conscious amid the market's continued shift toward passive investing. Further, continuously falling technology costs have invited capable, aggressively-priced competition from both smaller and larger players. FactSet's recent acquisition activity is also likely to increase the ever-present execution risk. With these considerations in mind, and with the shares trading at a fair valuation, we exited our remaining small position in the company.

Outlook

On balance, the outlook for equities continues to be favorable. Any meaningful uptick in inflation caused by either higher energy prices or significant wage growth is the principal risk in the outlook for the stock market. We will continue to monitor inflationary trends closely over the next couple of years. Geopolitical events, such as hurricanes and tensions with North Korea, have taken a back seat to the improving global earnings outlook so far this year. With the stock market at all-time highs, we believe it is important for clients to focus more than ever on their longer-term goals and risk tolerance, as market corrections can and do occur frequently—even in bull markets. With such unpredictability, we recommend that clients do not try to time the market, as most often investors fail severely in this endeavor and hurt their returns.

Portfolio Highlights

Style: Small-Mid Cap
Sub-Style: Value
Index: Russell 2500™ Value
Portfolio Inception: 2008
Portfolio Assets: \$435.2 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 September 30, 2017

Company	Percent of equity (%)
RBC Bearings	5.5
Scotts Miracle-Gro	4.5
Cheesecake Factory	4.3
HFF	4.2
TransUnion	4.2
Total	22.7

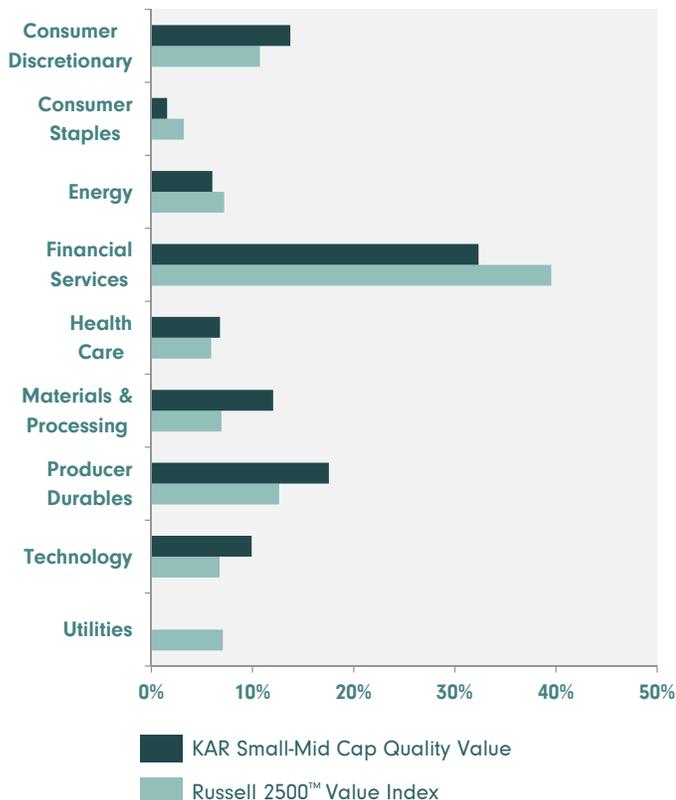
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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™ Value 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 September 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 September 30, 2017

	KAR Small-Mid Cap Quality Value	Russell 2500™ Value Index
Quality		
Return on Equity—Past 5 Years	21.8%	9.0%
Total Debt/EBITDA	1.9 x	6.4 x
Earnings Variance—Past 10 Years	24.7%	78.2%
S&P Stock Ranking (A+, A, A-, B+)	69.8%	26.9%
Growth		
Earnings Per Share Growth—Past 5 Years	9.4%	5.7%
Earnings Per Share Growth—Past 10 Years	9.8%	5.4%
Dividend Per Share Growth—Past 5 Years	12.2%	9.1%
Dividend Per Share Growth—Past 10 Years	12.8%	5.0%
Capital Generation—{ROE x (1-Payout)}	13.0%	6.1%
Value		
P/E Ratio—Trailing 12 Months	24.5 x	26.7 x
Dividend Yield	1.5%	2.0%
Free Cash Flow Yield†	2.5%	2.3%
Market Characteristics		
\$ Weighted Average Market Cap—4 Qtr. Avg.	\$6.2 B	\$4.3 B
Largest Market Cap—4 Qtr. Avg.	\$17.3 B	\$15.6 B
Annualized Standard Deviation—Since Inception*	16.4%	18.8%

*January 1, 2008

†Free cash flow data is as of June 30, 2017. Prices are as of September 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 Quality Value Portfolio

Third Quarter 2017

Strong Risk-Adjusted Returns

Inception* to September 30, 2017



Peer Comparison Chart

Inception* to September 30, 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 September 30, 2017			
3 rd Quarter	2.90	2.67	3.83
Year to Date	10.86	10.12	5.86
One Year	18.42	17.37	15.75
Three Years	13.10	12.10	9.94
Five Years	15.23	14.21	13.25
Seven Years	14.77	13.77	12.96
Inception*	12.50	11.48	8.59

	KAR Small-Mid Cap Quality Value (gross)	KAR Small-Mid Cap Quality Value (net) [‡]	Russell 2500™ Value Index
Annual Returns (%)			
2016	19.69	18.63	25.20
2015	(0.58)	(1.47)	(5.49)
2014	8.88	7.89	7.11
2013	36.30	35.12	33.32
2012	11.01	10.07	19.21
2011	7.40	6.52	(3.36)
2010	25.83	24.61	24.82
2009	32.51	31.22	27.68
2008	(18.99)	(19.82)	(31.99)

*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.

Performance Statistics

Inception* to September 30, 2017

	KAR Small-Mid Cap Quality Value	Russell 2500™ Value Index
Annualized Return	12.50	8.59
Annualized Standard Deviation	16.41	18.85
Alpha	4.92	0.00
Beta	0.83	1.00
Sharpe Ratio	0.75	0.44
R-Squared	89.87	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 Quality Value Composite has been examined for the period from January 1, 2012 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 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, 0.2% non-fee-paying portfolios as of December 31, 2014, 0.1% non-fee-paying portfolios as of December 31, 2015 and December 31, 2016.

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 1/12th of the highest tier of the standard management fee schedule in effect for the respective period on a monthly 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	20.07	24.57
2012	13.97	18.67
2013	12.01	15.29
2014	10.66	11.41
2015	12.25	12.19
2016	12.24	13.36

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	(18.99)	(19.82)	(31.99)	N/A
2009	4,010	< 1	< 5	32.51	31.22	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
2016	9,989	395	22	19.69	18.63	25.20	0.24

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