

Small-Mid Cap Quality Value Portfolio

Fourth Quarter 2017



Portfolio Review

The Small-Mid Cap Quality Value portfolio outperformed the Russell 2500 Value Index during the fourth quarter. Stock selection in the financial services and producer durables sectors helped drive returns, while negative stock selection in health care, along with an underweight in energy, detracted from performance.

The highest contributors to performance this quarter were HFF and TransUnion.

HFF notched double-digit growth in its revenues and earnings during the quarter despite a decline in transaction volumes industrywide. The company has built a well-regarded reputation, and its culture and compensation structure attract high-performing transaction professionals. We don't have a particular near-term view about the real estate cycle but believe that HFF would survive any downturn and continue to gain market share and that industry transaction volumes are likely to grow over time. Therefore, we remain owners of the business.

TransUnion shares performed strongly, supported by the company's reports of excellent operating results driven by solid organic revenue growth and positive operating leverage. Both within the mortgage area and in a variety of other verticals TransUnion has benefited from its ability to combine credit history with alternative data, further reducing the company's dependency on the credit cycle. Importantly, TransUnion remains a generator of strong free cash flow. Further, with its technology platform modernization project completed, the company began returning excess capital to shareholders in the form of share repurchases.

The biggest detractors from performance were Whirlpool and Anika Therapeutics.

Whirlpool shares declined sharply in late October following the company's announcement of a worse-than-expected outlook due to the impact of continued price inflation in raw materials. In response the company announced a series of global cost-based price increases, as well as a new initiative to reduce fixed costs, to be executed in 2018. While the global market for consumer appliances remains highly competitive, we continue to believe that Whirlpool has a strong family of leading brands and should be able to mitigate raw materials inflationary pressures through both pricing and cost-containment initiatives.

Anika saw its shares decline in the fourth quarter, even as solid sales growth in a couple of its products has allowed for an increase in market share. Pricing stability of Anika's products has also allowed for sustained gross margins. We believe the decline in 4Q could be in part due to some investors taking profits after the stock outperformed the prior quarter.

Purchases and Sales

We made no new purchases or complete sales in the Small-Mid Cap Quality Value portfolio during the fourth quarter.

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: Value
Index: Russell 2500™ Value
Portfolio Inception: 2008
Portfolio Assets: \$462.3 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 December 31, 2017

Company	Percent of equity (%)
RBC Bearings	5.2
HFF	4.9
Cheesecake Factory	4.7
TransUnion	4.6
Scotts Miracle-Gro	4.6
Total	23.9

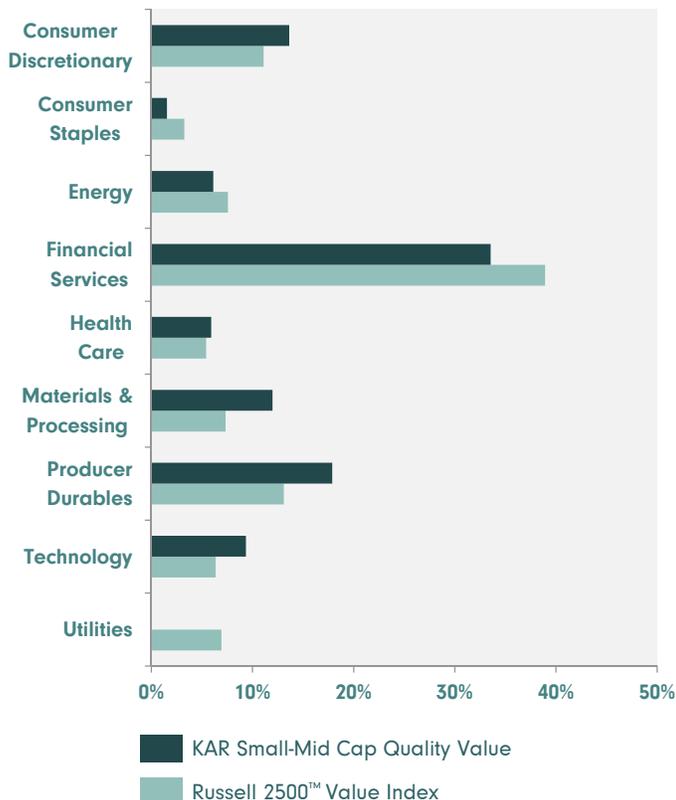
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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 	25–35 Stocks Position Weights <ul style="list-style-type: none"> • Typically 3%-4% • Maximum weight 10% (at market) Sector Tolerances <ul style="list-style-type: none"> • Typically +/- 10% of the Russell 2500™ Value Index, utilizing Russell sector classifications Holding Period <ul style="list-style-type: none"> • Typically 3-to-5 years, but is often longer • Portfolio turnover is typically 25% to 35% Cash Levels <ul style="list-style-type: none"> • Typically will not exceed 10% once a portfolio is fully invested 	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 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 Quality Value	Russell 2500™ Value Index
Quality		
Return on Equity—Past 5 Years	22.4%	9.1%
Total Debt/EBITDA	2.0 x	6.2 x
Earnings Variance—Past 10 Years	24.1%	76.8%
Growth		
Earnings Per Share Growth—Past 5 Years	9.0%	5.2%
Earnings Per Share Growth—Past 10 Years	10.8%	5.6%
Dividend Per Share Growth—Past 5 Years	12.1%	9.1%
Dividend Per Share Growth—Past 10 Years	15.1%	5.3%
Capital Generation—{ROE x (1-Payout)}	13.1%	5.9%
Value		
P/E Ratio—Trailing 12 Months	26.4 x	28.2 x
Dividend Yield	1.5%	2.0%
Free Cash Flow Yield†	3.2%	2.7%
Market Characteristics		
\$ Weighted Average Market Cap—3-Year Avg.	\$5.5 B	\$4.1 B
Largest Market Cap—3-Year Avg.	\$20.4 B	\$13.4 B
Annualized Standard Deviation—Since Inception*	16.2%	18.6%

*January 1, 2008

†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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Strong Risk-Adjusted Returns

Inception* to December 31, 2017



Peer Comparison Chart

Inception* to December 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 December 31, 2017			
4 th Quarter	6.87	6.63	4.25
One Year	18.48	17.43	10.36
Three Years	12.13	11.14	9.30
Five Years	15.91	14.88	13.27
Seven Years	13.95	12.96	11.54
Ten Years	12.92	11.89	8.82
Inception*	12.92	11.89	8.82

Annual Returns (%)			
2017	18.48	17.43	10.36
2016	19.69	18.63	25.20
2015	(0.58)	(1.47)	(5.49)
2014	8.88	7.89	7.11
2013	36.30	35.13	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)

● KAR Small-Mid Cap Quality Value
● Russell 2500™ Value Index

Performance Statistics

Inception* to December 31, 2017

	KAR Small-Mid Cap Quality Value	Russell 2500™ Value Index
Annualized Return	12.92	8.82
Annualized Standard Deviation	16.24	18.63
Alpha	5.13	0.00
Beta	0.83	1.00
Sharpe Ratio	0.78	0.46
R-Squared	89.73	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.

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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 Quality Value Composite has been examined for the period from January 1, 2012 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 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. Non-fee-paying portfolios represent < 1% of composite assets as of each annual period end from 2013-2016.

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.