

## Emerging Markets Small Cap Portfolio

First Quarter 2018

### Market Review

The first quarter of 2018 was a very volatile period for global equities, including emerging-market equities. The MSCI Emerging Markets Small Cap Index started the year strong, rising by 5.79% in January, but lost most of its gains in subsequent months and finished the quarter up by only 0.17%. The prospect of rising inflation, rate hikes and escalating trade tensions between the U.S. and China were the prime sources of volatility during the quarter.

### Portfolio Review

The Virtus KAR Emerging Market Small Cap strategy outperformed the benchmark during the quarter, posting a gain of 6.8%. The key drivers behind the performance were a handful of above-average-weighted portfolio companies that performed strongly, boosted by solid earnings results. Our underweight position in India also helped as India was the worst-performing market during the quarter. On the other hand, our underweight position in Brazil was a source of detraction as Brazil was one of the better-performing markets during the quarter. We also had a number of portfolio companies that performed poorly during the period.

Autohome once again was the largest positive contributor, continuing its streak as the top contributor for several quarters. The strong performance continues to be backed by solid business fundamentals, which continue to strengthen and expand. Autohome's business prospects continue to look promising, and we hold this stock at a high weight in the portfolio.

Douzone Bizon, a South Korea-based ERP software provider that we purchased during the third quarter last year, was our second-largest contributor. The stock had a particularly strong run during the first quarter after it reported results that showed strong growth across all of the company's business segments, exceeding market expectations by a wide margin.

The largest detraction during the quarter came from S.H. Kelkar, an Indian fragrance and flavor company that we purchased during the fourth quarter 2017. The stock performed poorly despite the company's latest results showing solid fundamentals with an improving trend in demand. We believe the market sentiment toward the stock turned negative recently due to concerns of rising prices of raw materials, which we expect will be passed on to customers over time.

Blue Dart Express was our second-largest detractor during the quarter. Blue Dart is an Indian express courier company that is 75% owned by DHL. It is the leader in air express, as it is the only player with dedicated cargo planes. The air freight business has been experiencing some pressure, recently hit by the negative impacts of the country's demonetization policy and a transition to the goods-and-services tax (GST) system, as well as some competition from ground transportation.

### Purchases and Sales

New Purchases	Complete Sales
Baozun	Oldtown
Sina	Distell
Sea	e-Credible
ADDCN	
Hsin Yung Chien	

### Portfolio Highlights

**Style:** Small Cap  
**Index:** MSCI® Emerging Markets Small Cap Index  
**Portfolio Turnover:** 25%-35%  
**Number of Holdings:** 30-60

### Investment Philosophy

- We believe that purchasing high-quality businesses with competitive protections at attractive valuations will achieve excess returns over a complete market cycle.

### Investment Objectives

- To achieve a return meaningfully above that of the MSCI® Emerging Markets Small Cap Index
- To achieve this return objective with a portfolio that exhibits lower overall risk characteristics

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	32
<b>Hyung Kim</b> Portfolio Manager + Senior Research Analyst	14
<b>Craig Thrasher, CFA</b> Portfolio Manager + Senior Research Analyst	14
<b>Ekaterina V. Advena</b> Research Analyst	9

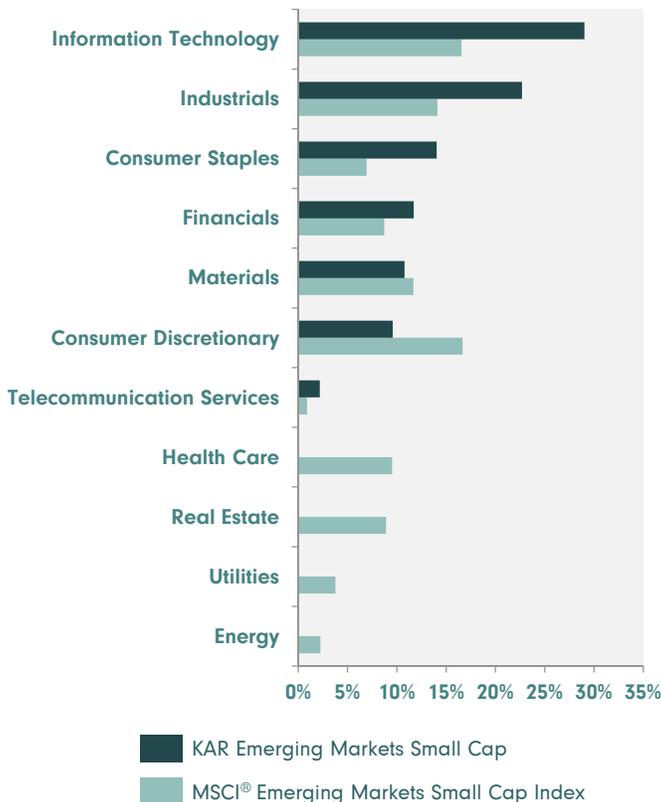
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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. 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>400 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>100–120 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>30–60 Stocks</b> <b>Position Weights</b> <ul style="list-style-type: none"> <li>Average position size is 1% to 5%</li> <li>Max initial position size is 5% (cost)</li> <li>Max position size is 10% (market)</li> </ul> <b>Sector and Geographic Tolerances</b> <ul style="list-style-type: none"> <li>Benchmark agnostic but seek broad diversification</li> </ul> <b>Holding Period</b> <ul style="list-style-type: none"> <li>Typically 3-to-5 years</li> <li>Portfolio turnover is typically 25% to 35%</li> </ul> <b>Cash Levels</b> <ul style="list-style-type: none"> <li>Fully Invested</li> <li>Typical cash position less than 10%</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 March 31, 2018



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 GICS sector classifications. Data is obtained by FactSet Research Systems and is assumed to be reliable.

## Portfolio Characteristics

As March 31, 2018

	KAR Emerging Markets Small Cap	MSCI® Emerging Markets Small Cap Index
<b>Quality</b>		
Return on Equity—Past 5 Years	22.5%	12.0%
Total Debt/EBITDA	1.0 x	4.2 x
Interest Expense Coverage	6.4 x	2.6 x
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	11.9%	9.2%
Earnings Per Share Growth—Past 10 Years	10.5%	8.6%
Dividend Per Share Growth—Past 5 Years	10.4%	10.5%
Dividend Per Share Growth—Past 10 Years	12.9%	9.1%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	16.1 x	18.2 x
Dividend Yield	2.6%	2.2%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap	\$2.6 B	\$1.5 B
Largest Market Cap	\$12.9 B	\$3.8 B

Data is obtained from 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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First Quarter 2018

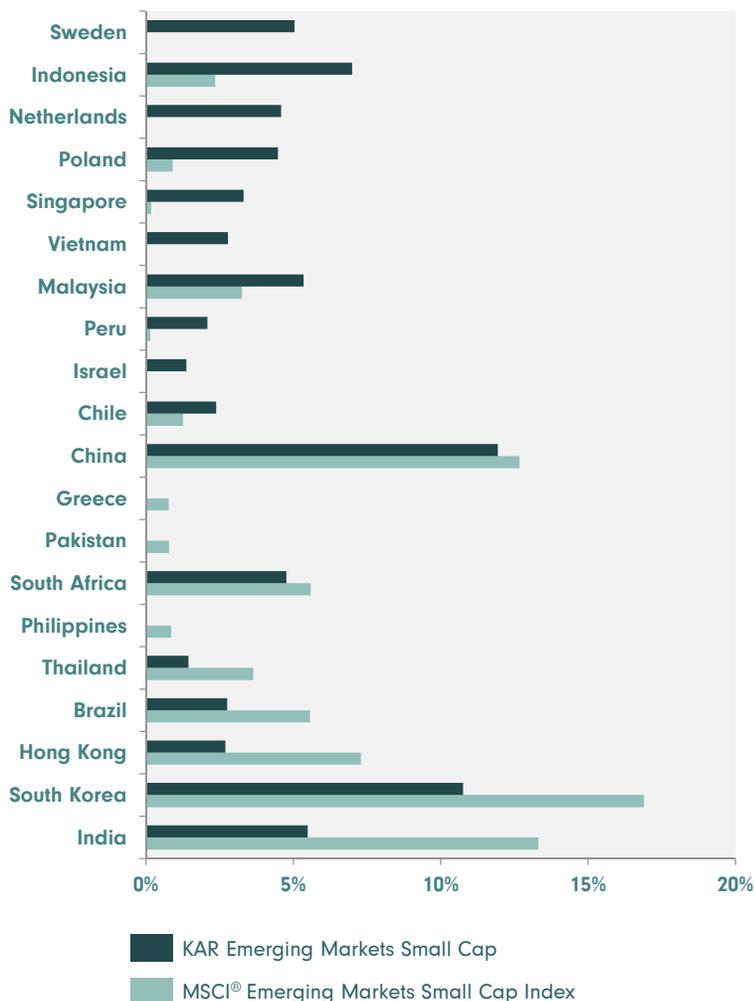
## Top 10 Holdings

As March 31, 2018

Company	Country	Percent of equity (%)
Autohome	China	6.6
Vostok New Ventures	Sweden	5.0
Yandex	Russia	4.6
Kerry TJ Logistics	Taiwan	3.3
Sea	Singapore	3.3
Baozun	China	2.9
Taisun	Vietnam	2.8
AVI Limited	South Africa	2.8
DOUZONE BIZON	South Korea	2.7
PT ACE Hardware	Indonesia	2.7
<b>Total</b>		<b>36.8</b>

## Country Exposure

As March 31, 2018



## Historical Returns

	KAR Emerging Markets Small Cap (gross)	KAR Emerging Markets Small Cap (net) <sup>‡</sup>	MSCI <sup>®</sup> Emerging Markets Small Cap Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As March 31, 2018			
1st Quarter	6.63	6.37	0.17
One Year	24.99	23.77	18.62
Three Years	12.54	11.44	7.23
Inception*	9.03	7.96	6.18
<b>Annual Returns (%)</b>			
2017	33.22	31.93	33.84
2016	18.45	17.28	2.28
2015	(16.02)	(16.84)	(6.85)
2014	2.20	1.16	1.01

\*January 1, 2014

<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 1% 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. 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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First Quarter 2018

### 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. The verification reports are available upon request.

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. Verification does not ensure the accuracy of any specific composite presentation.

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 Emerging Markets Small Cap Portfolios. Emerging Markets Small

Cap Portfolios are invested in equity securities with market capitalizations in line with the MSCI® Emerging Markets Small Cap 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 MSCI® Emerging Markets Small Cap Index (net). The MSCI® Emerging Markets Small Cap Index is a market capitalization-weighted index of small-capitalization stocks from countries defined as Emerging Markets in the MSCI® Global Investable Market Indices Universe, excluding U.S. companies. The index is calculated on a total-return basis with dividends reinvested, net of withholding taxes. Benchmark returns are not covered by the report of the independent verifiers. The composite was created in January 2014. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

The standard management fee schedule currently in effect is as follows: 1.00% for the first \$100 million; 0.90% 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 gross of withholding taxes and 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.

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, which measures the variability of the composite (using gross returns) and the benchmark for the 36-month period, is not presented for periods prior to 2016 because 36 monthly composite returns are not available.

3-Yr Annualized Standard Deviation (%)

December 31	Composite	Benchmark
2016	15.00	14.54

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	MSCI® Emerging Markets Small Cap Index (net) Annual Return (%)	Internal Dispersion
2014	7,989	5	< 5	2.20	1.16	1.01	N/A
2015	8,095	4	< 5	(16.02)	(16.84)	(6.85)	N/A
2016	9,989	5	< 5	18.45	17.28	2.28	N/A

The MSCI® Emerging Markets Small Cap Index is a trademark/service mark of MSCI®. MSCI® is a trademark of MSCI Inc..