

# National Intermediate Municipal Bond Portfolio

First Quarter 2018

**Investment Process:** An Active Fixed-Income Strategy

Strategic Input	Security Selection & Portfolio Construction	Sell Discipline
<ul style="list-style-type: none"> <li>Trends in U.S. and global economies</li> <li>Developments in state and local economies</li> <li>Direction of monetary and fiscal policy</li> <li>Term structure of interest rates</li> <li>Pricing of credit risk</li> <li>Inflation expectations</li> <li>Growth expectations</li> <li>Sector outlook</li> </ul>	<ul style="list-style-type: none"> <li>Develop duration and yield curve positioning strategies</li> <li>Conduct Credit Analysis                             <ul style="list-style-type: none"> <li>High quality-investment grade only</li> <li>Essential services and critical infrastructure</li> <li>Geographic/sector diversification</li> </ul> </li> <li>Conduct Structure Analysis                             <ul style="list-style-type: none"> <li>Intermediate duration</li> <li>Coupon/callability/final maturity</li> </ul> </li> <li>Select individual issues                             <ul style="list-style-type: none"> <li>Highly liquid</li> <li>20-40 securities</li> </ul> </li> <li>Security structure to enhance yield and lower volatility</li> </ul>	<ul style="list-style-type: none"> <li>Portfolio or sector duration adjustment</li> <li>Overvalued security</li> <li>Negative sector development</li> <li>Negative security development</li> </ul>

## Portfolio Highlights

**Style:** Intermediate high quality  
**Index:** Bloomberg Barclays 5-Year Municipal Bond  
**Strategy Inception:** 1994  
**Portfolio Inception:** 2012  
**Strategy Assets:** \$616.2 M\*

## Investment Objective

- Preserve capital and generate a high level of tax-free income consistent with the current market environment

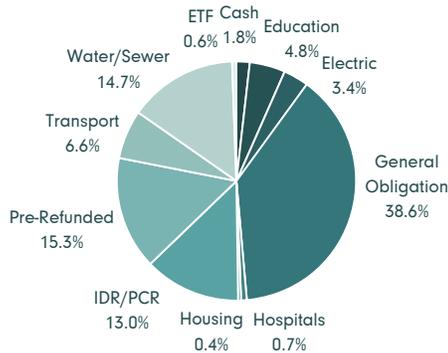
## Investment Strategy

- High quality
- Intermediate duration
- High liquidity
- Commitment to economic and geographic sector diversification
- Focus on essential services and critical infrastructure

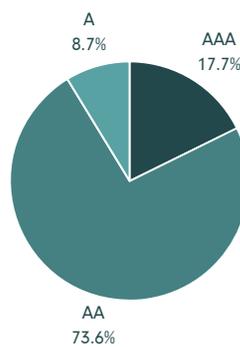
## Sector and Rating Analysis

As of March 31, 2018

### Sector Analysis



### Rating Analysis



## Historical Returns

	KAR National Intermediate Municipal Bond (gross)	KAR National Intermediate Municipal Bond (net) <sup>§</sup>	Bloomberg Barclays 5-Year Municipal Bond Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of March 31, 2018			
1 <sup>st</sup> Quarter	(0.96)	(1.09)	(0.57)
One Year	1.27	0.76	0.65
Three Years	1.54	1.04	1.27
Five Years	2.07	1.57	1.54
Inception <sup>‡</sup>	2.55	2.04	1.84
<b>Annual Returns (%)</b>			
2017	3.69	3.17	3.14
2016	(0.01)	(0.51)	(0.39)
2015	3.08	2.56	2.43
2014	6.65	6.13	3.19
2013	(1.37)	(1.86)	0.81
2012	5.14	4.62	2.96

<sup>†</sup>Includes all municipal bond assets managed by the firm.

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

<sup>‡</sup>January 1, 2012

<sup>§</sup>Net of all fees and expenses. Assumes a 0.50% annual investment management fee. Other fees may apply for additional wealth management services.

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. A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. Portfolio data is based on the average of the accounts in the KAR National Intermediate Municipal Bond Composite. Individual Investors' holdings may differ slightly. Data is obtained from FactSet Research Systems and a major consulting firm and is assumed to be reliable. Numbers may not always add up due to rounding. Past performance is no guarantee of future results.

## Investment Management Team

Name	Years of experience
<b>Kimberly C. Friedrichs</b> Managing Director of Fixed Income	31
<b>Lisa Holmes, CFP®</b> Senior Fixed Income Analyst/Trader	19
<b>Brian Chi</b> Municipal Analyst/Trader	8

## Portfolio Characteristics

As of March 31, 2018

Average Credit Quality	AA
Average Life	5.3 Years
Average Duration (Effective)	4.6 Years
Average Coupon	5.0%
Current Yield	4.4%
Average Yield to Maturity	2.8%

## Maturity

As of March 31, 2018

	Percent (%)
< 1 Year	12.3
1-3 Years	12.2
3-5 Years	27.9
5-7 Years	32.5
7-10 Years	15.3
<b>Total</b>	<b>100.0</b>

## National Intermediate Municipal Bond Portfolio

Fourth 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 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 non-commissionable, fully discretionary, institutional and pooled National Intermediate Municipal

Bond Portfolios (including cash) that are under management and fully invested for at least one full quarter. The minimum account size for this composite is \$500,000. National Intermediate Municipal Bond Portfolios are invested in high-quality, intermediate-term maturity securities that provide investors with current income exempt from some state and federal income taxes. For comparison purposes, the composite is measured against the Barclays Five-Year Municipal Bond Index, which is a market value weighted index of national municipal bond issues with maturities between four and six years. Benchmark returns are not covered by the report of the independent verifiers. The composite was created in January 2012. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

Accounts that experience a significant cash flow, defined as aggregate flows that exceed 5% of the account's beginning of period market value, are temporarily removed from the composite.

The standard management fee schedule currently in effect is as follows: 0.50% for the first \$5 million; 0.35% on the next \$5 million; 0.25% 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 or for time periods less than one 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
2014	3.14	2.14
2015	2.92	2.13
2016	2.94	2.47

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Bloomberg Barclays 5-Year Municipal Bond Annual Return (%)	Internal Dispersion
2012	6,545	24	5	5.14	4.62	2.96	N/A
2013	7,841	9	< 5	(1.37)	(1.86)	0.81	N/A
2014	7,989	25	7	6.65	6.13	3.19	N/A
2015	8,095	48	9	3.08	2.56	2.43	0.33
2016	9,989	51	10	(0.01)	(0.51)	(0.39)	0.21