



## PORTFOLIO OVERVIEW

The Small Cap Core Portfolio outperformed the Russell 2000 Index during the quarter. Our strategy of owning businesses with secure competitive positions produced good relative results in a difficult market. The ability to resist declines during times of stress is a cornerstone of our investment approach and the third quarter certainly tested this objective. The source of this trait lies in the nature of the businesses in which we invest. These businesses have created competitive protections in our view that provide them with more resilient earning power and greater discretionary cash flow.

The companies that contributed the most to performance during the quarter included Advisory Board and Computer Programs & Systems. Advisory Board's stock performed strongly following the company's reports of excellent fiscal first quarter 2012 results with improved member renewal and new client acquisition environment providing the foundation for the calendar 2011 guidance increase. Importantly, the company's balance sheet remains pristine with \$35 million in cash and no debt. With the nation's health-care industry facing an environment of an unprecedented degree of complexity and uncertainty further exacerbated by the recently adopted health-care reform's provisions, the company's value proposition to both existing and prospective clients is becoming more evident than ever. The Advisory Board is in an excellent position to maintain its profitable growth by continuing to win market share and execute on numerous product development and tuck-in acquisition opportunities leveraging the company's dominant positioning and expertise in the health-care segment. Computer Programs & Systems' shares have advanced in 2011 as the company experienced healthy earnings growth due to higher demand from its hospital clients as part of the federal government's efforts to spur electronic medical record adoption in the health-care industry through government subsidies.

The companies that contributed the least to performance during the quarter included Tempur-Pedic International and Brown & Brown. Tempur-Pedic International saw its shares fall in the quarter despite posting financial results that showed the company hitting all-time highs in earnings and operating margins as the company takes share in the premium mattress category. The company was one of our top performing stocks in the first two quarters of the year. Tempur-Pedic continues to generate strong free cash flow that has been used to pay down its debt levels. Brown & Brown's stock lagged following the company's reports of weaker-than-expected second quarter 2011 results driven by the ongoing softness in the P&C insurance market, difficult economic conditions in the company's core middle market segment, and slow acquisition environment. Despite this challenging operating environment, the company continues to maintain its industry-leading profitability. Despite being one of the nation's largest P&C insurance brokers, Brown & Brown holds a modest single-digit share of its highly fragmented market. The company is in an excellent position to maintain its profitable growth by continuing to win market share and execute on numerous consolidation opportunities leveraging the company's unique business culture and M&A expertise.

## PURCHASES AND SALES

In the Small Cap Core Portfolio, there were no new purchases or complete sales from the portfolio during the quarter.

## OUTLOOK

Small capitalization equity valuations are certainly lower now compared to just three months ago but remain elevated. However, high-quality small companies are more reasonably priced and should therefore provide superior investment results over the next several years relative to the Russell 2000 Index. Our strategy is centered on investing in high-quality small capitalization stocks and we therefore expect our relative results to compare favorably to the index over the intermediate and long term.

The best times to invest can often be those times when circumstances appear the worst. We do not know precisely how the current challenges will turn out, but we will continue to invest in businesses that have the greatest control over their markets with excellent business-level economics. We focus on purchasing these businesses at good prices with the expectation to own them for many years. This approach has historically produced healthy excess return with less risk and we expect that to continue in the future.

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 not be considered a recommendation or solicitation to purchase securities. A complete list of holdings and specific securities transactions for the preceding 12 months is available upon request. Holdings are subject to change. Past performance is no guarantee of future results.

## PORTFOLIO HIGHLIGHTS

Style: Small Cap

Sub-Style: Core

Index: Russell 2000\*

Portfolio Inception: 1992

Portfolio Assets: \$1,163.0 M

Portfolio Turnover: 25%–35%

## INVESTMENT MANAGEMENT TEAM

NAMES	YEARS of research experience
Robert Schwarzkopf, CFA <i>CIO + Portfolio Manager</i>	30
Doug Foreman, CFA <i>Director of Equities</i>	25
Todd Beiley, CFA <i>Portfolio Manager + Senior Research Analyst</i>	12
Jon Christensen, CFA <i>Portfolio Manager + Senior Research Analyst</i>	16
Julie Kutasov <i>Senior Research Analyst</i>	10
Craig Stone <i>Senior Research Analyst</i>	22
Craig Thrasher, CFA <i>Research Analyst</i>	6
Gregory Toppe, CFA <i>Research Analyst</i>	11

## TOP FIVE HOLDINGS

as of September 30, 2011

COMPANY	PERCENT of equity (%)
Tempur-Pedic International	5.9
Cohen & Steers	5.6
POOLCORP	5.6
Copart	5.5
ANSYS	5.4
<b>Total</b>	<b>28.0</b>

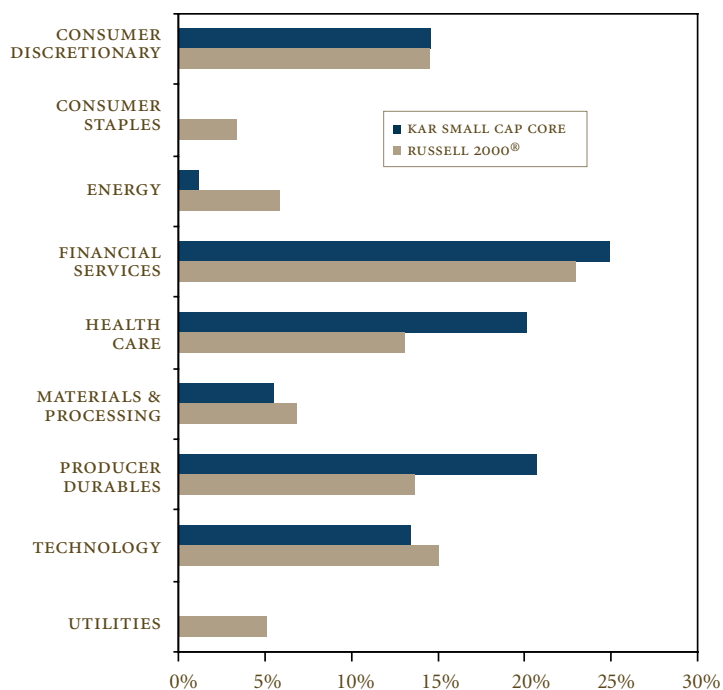
A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. Holdings and weightings listed above are based on a representative portfolio of the Kayne Anderson Rudnick Small Cap Core strategy. Individual investors' holdings may differ slightly from the representative portfolio.

INVESTMENT PROCESS—DISCOVERING QUALITY



SECTOR DIVERSIFICATION

as of September 30, 2011



Data is obtained from FactSet Research Systems and is assumed to be reliable. A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. The sector information represented above is based on Russell sector classifications.

PORTFOLIO CHARACTERISTICS

as of September 30, 2011

KAR Small Cap Core Russell 2000®

QUALITY	KAR Small Cap Core	Russell 2000®
Return on Equity—Past 5 yrs.	21.3%	9.1%
Total Debt/EBITDA	0.5x	4.3x
Earnings Variance—Past 10 yrs.	22.0%	89.6%
S&P Stock Ranking (A+, A, A-, B+)	63.2%	20.0%
GROWTH		
Earnings Per Share Growth—Past 5 yrs.	8.2%	4.2%
Earnings Per Share Growth—Past 10 yrs.	13.7%	7.2%
Dividend Per Share Growth—Past 5 yrs.	10.7%	1.3%
Dividend Per Share Growth—Past 10 yrs.	18.9%	4.4%
Capital Generation—(ROE x {1-Payout})	15.8%	7.7%
VALUE		
P/E Ratio—Trailing 12 Months	18.8x	19.9x
Dividend Yield	1.2%	1.7%
Free Cash Flow Yield†	4.7%	1.5%
MARKET CHARACTERISTICS		
\$ Weighted Avg. Market Cap—4 Qtr. Avg.	\$2.2 B	\$1.3 B
Largest Market Cap—4 Qtr. Avg.	\$5.4 B	\$4.3 B
Annualized Standard Deviation—Since Inception*	17.0%	21.1%

\*April 1, 1992

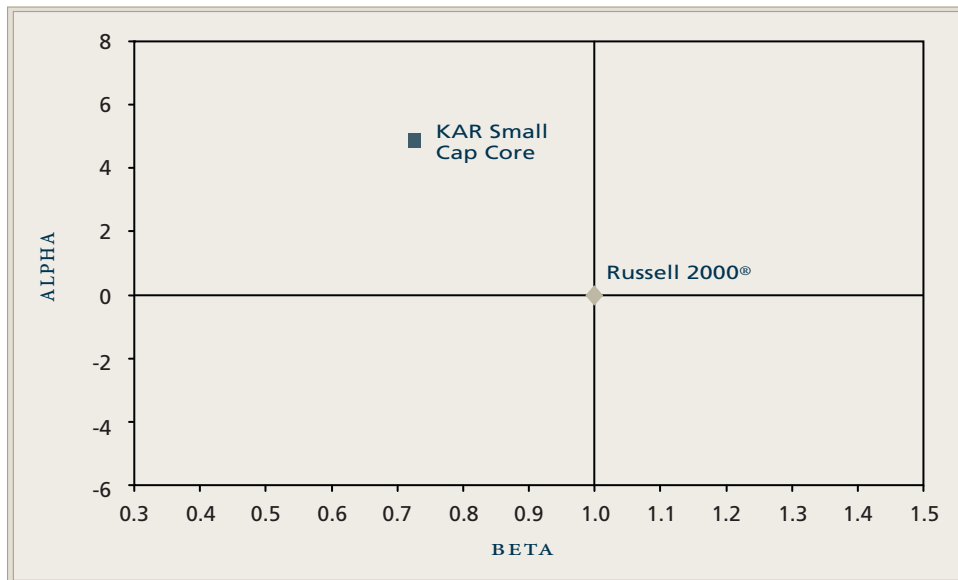
†Free cash flow data is as of June 30, 2011. Prices are as of September 30, 2011. Excludes financials.

This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.

Data is obtained from Bloomberg, FactSet Research Systems, and a major consulting firm, 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.

## RISK-RETURN ANALYSIS

Inception\* to September 30, 2011



\*April 1, 1992

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## HISTORICAL RETURNS

	KAR Small Cap Core (gross)	KAR Small Cap Core (net)†	Russell 2000®
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ANNUALIZED RETURNS (%)<sup>\*</sup>  
as of September 30, 2011

3rd Quarter	-13.72	-14.47	-21.87
Year to Date	-0.77	-2.30	-17.02
One Year	13.91	11.75	-3.53
Three Years	8.83	6.83	-0.37
Five Years	5.48	3.69	-1.02
Seven Years	7.36	5.33	3.03
Ten Years	9.69	7.27	6.12
Inception‡	11.77	8.91	7.55

ANNUAL RETURNS (%)

2010	24.83	22.52	26.85
2009	31.80	29.72	27.17
2008	-28.15	-29.36	-33.79
2007	3.25	1.71	-1.57
2006	13.46	11.87	18.37
2005	7.87	4.63	4.55
2004	23.07	19.42	18.33
2003	35.02	31.19	47.25
2002	-13.73	-16.34	-20.48
2001	6.82	3.74	2.49
2000	20.98	17.42	-3.02
1999	7.02	3.93	21.26
1998	20.98	17.42	-2.55
1997	21.00	17.45	22.36
1996	26.98	23.22	16.49
1995	18.57	15.07	28.44
1994	2.75	-0.26	-1.82
1993	20.00	16.54	18.90

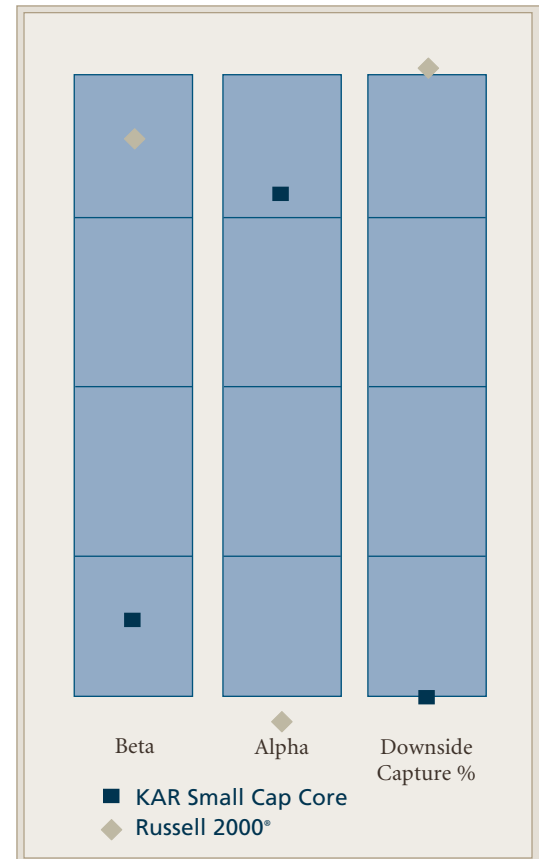
\*All periods less than one year are total returns and are not annualized. Returns are preliminary.

†Net of all fees and expenses. Assumes a 3% annual fee.

‡April 1, 1992

## PEER COMPARISON CHART

Inception\* to June 30, 2011



## PERFORMANCE STATISTICS

Inception\* to September 30, 2011

	KAR Small Cap Core	Russell 2000®
ANNUALIZED RETURN	11.77	7.55
ANNUALIZED STANDARD DEVIATION	16.97	21.08
ALPHA	4.94	0.00
BETA	0.73	1.00
SHARPE RATIO	0.50	0.20
R-SQUARED	81.55	100.00

\*April 1, 1992

This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. For further details on the composite, please see the disclosure statement at the end of this presentation. Past performance is no guarantee of future results. Data is obtained from FactSet Research systems and is assumed to be reliable.

## DISCLOSURE

Kayne Anderson Rudnick Investment Management, LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

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. 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, wrap fee Small Cap Core portfolios (including cash) under management for at least one full quarter. Small Cap Core portfolios are invested in equity securities with market capitalizations consistent with the Russell 2000® Index, that have market control, rising free cash flow, shareholder oriented management, strong consistent profit growth, and low debt balance sheets. The minimum account size for this composite is \$100,000. For comparison purposes, the composite is measured against the Russell 2000® Index. The Russell 2000® Index is a market capitalization-weighted index of the 2,000 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 October 1995. The firm maintains a complete list and description of composites, which is available upon request.

Accounts that experience a significant cash flow, defined as aggregate flows that exceed 25% of the beginning of period market value, are removed from the composite for the quarter the significant cash flow occurs. The account remains excluded until it has been invested without further significant cash flows for one full calendar quarter. Additional information regarding the firm's policies and procedures for calculating and reporting performance and for the treatment of significant cash flows is available upon request.

For periods prior to October 1, 1995, the composite calculations have been linked to the firm's Small Cap Core actual historical non-wrap fee composite performance. The minimum account size for the Small Cap Core non-wrap fee composite was \$250,000. Beginning on October 1, 1995, only eligible wrap fee portfolios are included in composite results.

The standard wrap fee schedule in effect is 3.00% on total assets. 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. Performance results include the reinvestment of all income. As of to October 1, 1995, pure gross returns do not reflect the deduction of any expenses, including trading costs. From April 1, 1992 to December 31, 2005, net annual returns are calculated after the deduction of an assumed maximum annual wrap fee of 3%. Beginning January 1, 2006, net annual returns are calculated using actual fees incurred. If no fee data is provided by wrap sponsors, the maximum annual wrap fee of 3% is used to calculate net of fee performance. The historical non-wrap fee composite gross annual performance, as presented, is after commissions on portfolio transactions, which under a wrap fee agreement are included in such wrap fees. Wrap fees include all charges for trading costs, portfolio management, custody, and other administrative expenses.

If applicable, the annual standard deviation presented is an asset-weighted calculation of performance dispersion for accounts in the composite for the entire year.

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Wrap Accounts as % of Composite Assets	Accounts at Year End	Pure Gross Annual Return (%)*	Net Annual Return (%)	Russell 2000® Annual Return	Annual Standard Deviation
2001	8,384	11	100%	13	6.82	3.74	2.49	0.74
2002	8,612	7	100%	7	(13.73)	(16.34)	(20.48)	0.58
2003	10,262	4	100%	<5	35.02	31.19	47.25	N/A
2004	10,320	30	100%	16	23.07	19.42	18.33	N/A
2005	8,533	79	100%	34	7.87	4.63	4.55	0.40
2006	6,523	1,011	100%	51	13.46	11.87	18.37	0.46
2007	5,392	847	100%	39	3.25	1.71	(1.57)	0.21
2008	3,445	469	100%	49	(28.15)	(29.36)	(33.79)	0.42
2009	4,010	565	100%	54	31.80	29.72	27.17	0.71
2010	4,729	659	100%	67	24.83	22.52	26.85	0.71

\*Beginning October 1, 1995, pure gross returns are supplemental to net returns.

If applicable, the annual standard deviation presented is an asset-weighted calculation of performance dispersion for accounts in the composite for the entire year.

The Russell 2000® Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.