

## Mid Cap Sustainable Growth Portfolio

Fourth Quarter 2017

### Portfolio Overview

The Mid Cap Sustainable Growth portfolio underperformed the Russell Midcap Growth Index during the fourth quarter. The portfolio benefited from strong stock selection in the consumer staples and energy sectors, while it was hurt by negative stock selection and an underweight in the industrials sector and negative stock selection in the consumer discretionary sector.

Holdings that contributed the most to performance during the quarter were Monster Beverage and POOLCORP.

Monster Beverage has suffered several quarters of erratic financial performance due to the transition into the Coke global distribution network and some production shortages here in the U.S. However, those headwinds appear to be dissipating as evidenced by recent quarterly results, which showed a pickup in revenue growth in both the domestic and international markets. We think the upswing in domestic markets is sustainable, and as the company gains additional scale from increased international distribution via Coke, profits are expected to increase meaningfully.

POOL's huge scale advantages in purchasing allow it to offer competitive prices while maintaining superior profitability, and its large maintenance and repair business provides a high, recurring revenue stream. The recent rebound in new residential housing construction is a strong leading indicator for the company, not only for the pool business, but also for its smaller irrigation business. The discretionary part of POOL's business has been booming as favorable weather has dovetailed with rising incomes and the return of favorably priced home equity lines of credit. POOL is also a big beneficiary of lower domestic tax rates.

Holdings that detracted the most from performance were Ctrip.com and Expedia.

Ctrip has consolidated and monopolized the online travel market in China. Rampant couponing and competition had caused Ctrip's operating margin to sink to the low-teens, but the company is well on its way to returning it to the mid-20s or better. Ctrip has been under fire recently as regulators forced the company to unbundle some products, such as trip insurance, that it would automatically add to ticket purchases. The company's reputation and financial performance are expected to take a near-term hit, though we do not believe the long-term growth story has structurally changed.

Expedia has suffered from many of the same issues as its larger competitor Priceline. While Expedia's bookings represent a low single-digit percent of available room nights, the company's spending on marketing continues to outpace revenue growth. Investors are wrestling with the company's stance that this marketing spend drives growth in loyal customers. Additionally, Expedia has earmarked 2018 as an investment year in which it will ramp up spending on marketing along with on cloud infrastructure, inventory and its sales force. We are closely monitoring the evolution of its operating metrics but still believe in the long-term transition from offline to online bookings in the travel industry.

### 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.

### Purchases and Sales

#### New Purchases

CarGurus

#### Complete Sales

Financial Engines

### Portfolio Highlights

**Style:** Mid Cap  
**Sub-Style:** Growth  
**Index:** Russell Midcap® Growth  
**Portfolio Assets:** \$98.1 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer + Portfolio Manager	31
<b>Richard Sherry, CFA</b> Senior Research Analyst	19
<b>Chris Armbruster, CFA</b> Research Analyst	12

### Top Five Holdings

As of December 31, 2017

Company	Percent of equity (%)
Monster Beverage	4.8
Netflix	4.7
Wynn Resorts	3.9
MarketAxess Holdings	3.7
Amphenol	3.4
<b>Total</b>	<b>20.5</b>

*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
<b>200 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>60-70 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>25-50 Stocks</b> <b>Position Weights</b> <ul style="list-style-type: none"> <li>Typically 1%-3%</li> <li>Maximum position size is 10% (at market)</li> </ul> <b>Sector Tolerances</b> <ul style="list-style-type: none"> <li>Typically +/- 10% of the Russell Midcap<sup>®</sup> Growth Index, utilizing GICS sector classifications</li> </ul> <b>Holding Period</b> <ul style="list-style-type: none"> <li>Typically 3-to-5 years, but is often longer</li> <li>Portfolio turnover is typically 25% to 35%</li> </ul> <b>Cash Levels</b> <ul style="list-style-type: none"> <li>Typically will not exceed 10% once a portfolio is fully invested</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>
Higher Quality   Stronger, More Consistent Growth   Better Value			

## Portfolio Characteristics

As of December 31, 2017

	KAR Mid Cap Sustainable Growth	Russell Midcap <sup>®</sup> Growth Index
<b>Quality</b>		
Return on Equity—Past 5 Years	20.8%	20.1%
Total Debt/EBITDA	2.8 x	3.1 x
Earnings Variance—Past 10 Years	46.9%	49.7%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	12.0%	11.5%
Earnings Per Share Growth—Past 10 Years	14.2%	12.0%
Capital Generation—{ROE x (1-Payout)}	16.9%	14.4%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	61.8 x	32.8 x
P/E-to-10 Year Growth	4.3 x	2.7 x
Free Cash Flow Yield*	2.2%	3.9%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap	\$17.8 B	\$15.6 B
Largest Market Cap	\$82.7 B	\$36.7 B

\*Free cash flow data is as of September 30, 2017. Prices are as of December 31, 2017. Excludes financials.

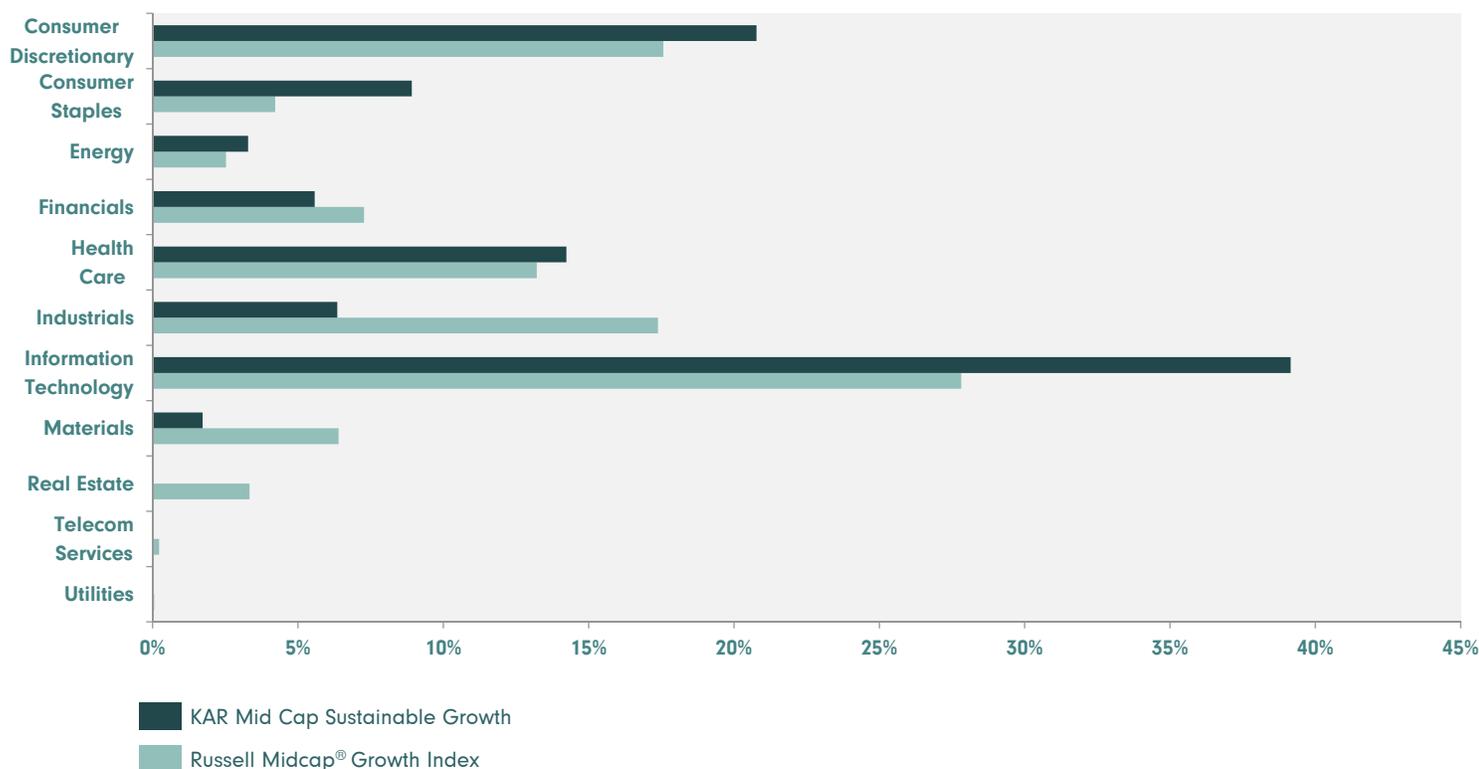
Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. Past performance is no guarantee of future results.

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Fourth Quarter 2017

## Sector Diversification

As of December 31, 2017



## Historical Returns

	KAR Mid Cap Sustainable Growth (gross)	KAR Mid Cap Sustainable Growth (net) <sup>‡</sup>	Russell Midcap® Growth Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of December 31, 2017			
4 <sup>th</sup> Quarter	5.77	5.58	6.81
One Year	34.99	34.00	25.27
Three Years	13.20	12.37	10.30
Five Years	14.01	13.16	15.30
Inception*	14.00	13.16	15.39
<b>Annual Returns (%)</b>			
2017	34.99	34.00	25.27
2016	3.27	2.50	7.33
2015	4.06	3.30	(0.20)
2014	4.98	4.18	11.90
2013	26.46	25.54	35.74
2012	13.97	13.12	15.81

\*January 1, 2012

<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 0.75% 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. 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 from FactSet Research Systems and is assumed to be reliable. Past performance is no guarantee of future results.

## Performance Statistics

Inception\* to December 31, 2017

	KAR Mid Cap Sustainable Growth	Russell Midcap® Growth Index
Annualized Return	14.00	15.39
Annualized Standard Deviation	12.14	11.03
Beta	1.00	1.00
Sharpe Ratio	1.14	1.38
R-Squared	83.36	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, 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 Mid Cap Sustainable Growth Portfolios. Mid Cap Sustainable Growth Portfolios are invested in equity securities with market capitalizations consistent with the

Russell Midcap® Growth 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 Midcap® Growth Index. The Russell Midcap® Growth Index is a market capitalization-weighted index of growth-oriented stocks of the 800 smallest companies in the Russell 1000® Index, which comprises the 1,000 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 January 2012. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. This composite contained 100% non-fee-paying portfolios as of December 31, 2012, 100% non-fee-paying portfolios as of December 31, 2013, 0.4% non-fee-paying portfolios as of December 31, 2014, December 31, 2015 and 0.5% non-fee-paying portfolios as of December 31, 2016.

The standard management fee schedule currently in effect is as follows: 0.75% for the first \$25 million; 0.65% on the next \$25 million; 0.55% on the next \$50 million; 0.50% 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 management fees and 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 1/12th 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 2014 because 36 monthly composite returns are not available. 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	11.25	11.02
2015	13.28	11.47
2016	14.38	12.35

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell Midcap® Growth Index Annual Return (%)	Internal Dispersion
2012	6,545	82	< 5	13.97	13.12	15.81	N/A
2013	7,841	93	< 5	26.46	25.54	35.74	N/A
2014	7,989	90	< 5	4.98	4.18	11.90	N/A
2015	8,095	88	< 5	4.06	3.30	(0.20)	N/A
2016	9,989	83	< 5	3.27	2.50	7.33	N/A

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