

Small Cap Core Portfolio

Third Quarter 2017



Portfolio Review

The Small Cap Core portfolio outperformed the Russell 2000 Index during the third quarter. The outperformance was primarily driven by positive stock selection in the technology and consumer discretionary sectors. Performance was hurt by poor stock selection and an underweight in health care, and poor stock selection in the energy sector.

Positions that contributed most positively to performance during the quarter were Autohome and Teledyne Technologies. Autohome reported another quarter of robust revenue growth and profit improvement that surpassed expectations, as its financial results continue to benefit from the secular shift of ad budgets from offline to online media. It is worth noting that just before the end of the third quarter, two senior executives at Autohome resigned for personal reasons. Based on follow-up conversations we have had with the company, these departures were not related to the fundamentals of the business and management will maintain the current corporate strategy. Therefore, given Autohome's strong competitive positioning, improved capital allocation and the expected long-term growth of the Chinese car market, we remain owners of the business. Teledyne outperformed as energy end-markets stabilized, digital imaging product experienced elevated demand and management completed an attractive acquisition. The company's products continue to dominate niche industrial markets and capital allocation efforts remain superior.

Positions that contributed most negatively to performance during the quarter were Abaxis and MarketAxess Holdings. Abaxis saw its shares fall in the quarter after reporting another weak quarter in sales as its veterinarian business grew slightly while medical was down due to distributor destocking. The company is ramping up its research and development efforts that should drive the top line, but this disconnect with the financials could continue for a few more quarters. The solid balance sheet and high consumables mix combined with a re-rating of the shares with future growth ahead keeps us as shareholders. MarketAxess continues to penetrate its market, but overall business trends moderated in the quarter due to sluggish overall trading activity in the high grade fixed income market.

Purchases and Sales

We made no new purchases or complete sales during the third quarter.

Outlook

On balance, the outlook for equities continues to be favorable. Any meaningful uptick in inflation caused by either higher energy prices or significant wage growth is the principal risk in the outlook for the stock market. We will continue to monitor inflationary trends closely over the next couple of years. Geopolitical events, such as hurricanes and tensions with North Korea, have taken a back seat to the improving global earnings outlook so far this year. With the stock market at all-time highs, we believe it is important for clients to focus more than ever on their longer-term goals and risk tolerance, as market corrections can and do occur frequently—even in bull markets. With such unpredictability, we recommend that clients do not try to time the market, as most often investors fail severely in this endeavor and hurt their returns.

Portfolio Highlights

Style: Small Cap
Sub-Style: Core
Index: Russell 2000®
Portfolio Inception: 1992
Portfolio Assets: \$4,508.8 M
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	31
Todd Bailey, CFA Portfolio Manager + Senior Research Analyst	18
Jon Christensen, CFA Portfolio Manager + Senior Research Analyst	22
Julie Kutasov Senior Research Analyst	16
Craig Stone Senior Research Analyst	28
Chris Wright, CFA Senior Research Analyst	7
Chris Benway, CFA Research Analyst	8
Julie Biel, CFA Research Analyst	9

Top Five Holdings

As of September 30, 2017

Company	Percent of equity (%)
Autohome	9.2
CDW	5.8
Primerica	5.4
WABCO Holdings	5.4
Teledyne Technologies	5.4
Total	31.2

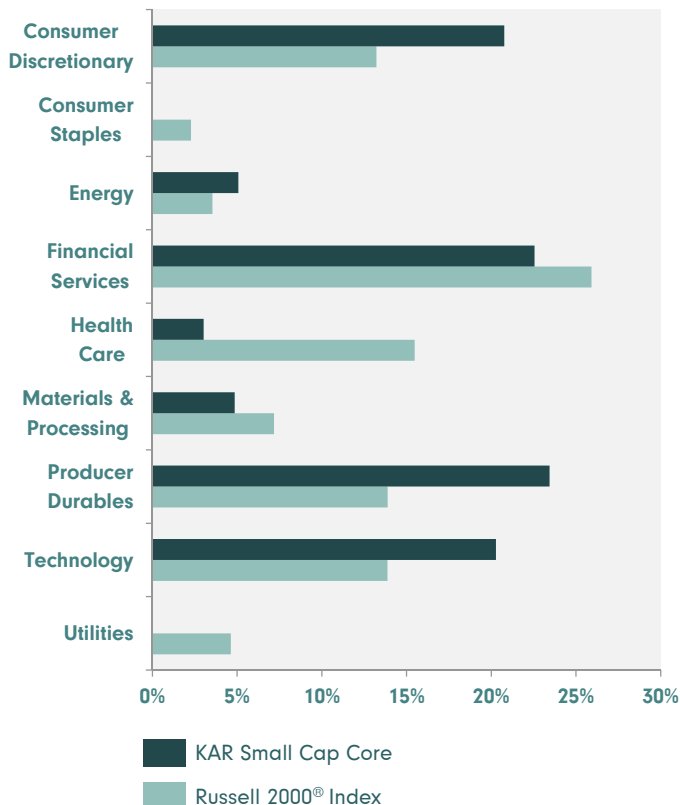
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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 	23–35 Stocks Position Weights <ul style="list-style-type: none"> Average position size is typically 3% Max initial position size is 5% (cost) Max position size is 10% (market) Sector Tolerances <ul style="list-style-type: none"> +/- 10% of the sector weights of the Russell 2000® Index Holding Period <ul style="list-style-type: none"> Typically 3-to-5 years Portfolio turnover is typically 25% to 35% Cash Levels <ul style="list-style-type: none"> Typically less than 5% Max cash position is 10% 	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 September 30, 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 September 30, 2017

	KAR Small Cap Core	Russell 2000® Index
Quality		
Return on Equity—Past 5 Years	28.1%	10.1%
Total Debt/EBITDA	1.4 x	5.7 x
Earnings Variance—Past 10 Years	31.8%	81.4%
Growth		
Earnings Per Share Growth—Past 10 Years	13.6%	6.8%
Dividend Per Share Growth—Past 10 Years	14.6%	4.3%
Capital Generation—{ROE x (1-Payout)}	21.7%	7.8%
Value		
P/E Ratio—Trailing 12 Months	27.8 x	38.7 x
Dividend Yield	0.7%	1.2%
Free Cash Flow Yield†	3.7%	1.1%
Market Characteristics		
\$ Weighted Average Market Cap—4 Qtr. Avg.	\$5.1 B	\$2.2 B
Largest Market Cap—4 Qtr. Avg.	\$9.7 B	\$9.9 B
Annualized Standard Deviation—Since Inception*	14.8%	18.5%

*April 1, 1992

†Free cash flow data is as of June 30, 2017. Prices are as of September 30, 2017. Excludes financials.

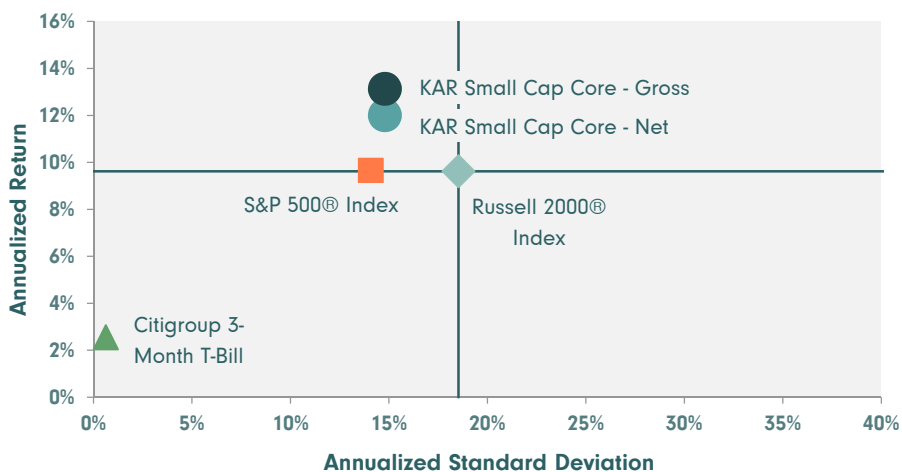
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. Past performance is no guarantee of future results.

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Third Quarter 2017

Strong Risk-Adjusted Returns

Inception* to September 30, 2017



Historical Returns

	KAR Small Cap Core (gross)	KAR Small Cap Core (net) [†]	Russell 2000 [®] Index
Annualized Returns (%)[†]			
As of September 30, 2017			
3 rd Quarter	8.95	8.69	5.67
Year to Date	23.63	22.73	10.94
One Year	32.01	30.72	20.74
Three Years	18.17	17.02	12.18
Five Years	16.50	15.35	13.79
Seven Years	17.14	15.99	13.51
Ten Years	11.85	10.75	7.85
Inception*	13.13	12.01	9.62

Annual Returns (%)	KAR Small Cap Core (gross)	KAR Small Cap Core (net) [†]	Russell 2000 [®] Index
2016	19.10	17.93	21.31
2015	2.37	1.36	(4.41)
2014	7.51	6.43	4.89
2013	30.10	28.84	38.82
2012	13.42	12.29	16.35
2011	10.14	9.08	(4.18)
2010	25.00	23.79	26.85
2009	32.09	30.80	27.17
2008	(27.64)	(28.40)	(33.79)
2007	3.16	2.14	(1.57)
2006	13.43	12.30	18.37
2005	7.78	6.70	4.55
2004	23.37	22.14	18.33
2003	34.34	33.06	47.25
2002	(12.74)	(13.62)	(20.48)
2001	6.16	5.13	2.49
2000	21.38	20.18	(3.02)
1999	6.09	5.06	21.26
1998	21.39	20.20	(2.55)
1997	20.82	19.63	22.36
1996	27.00	25.74	16.49
1995	17.47	16.30	28.45
1994	2.75	1.74	(1.82)
1993	20.00	18.84	18.88
1992 [§]	9.65	8.85	10.16

*April 1, 1992

[†]All periods less than one year are total returns and are not annualized. Returns are preliminary.

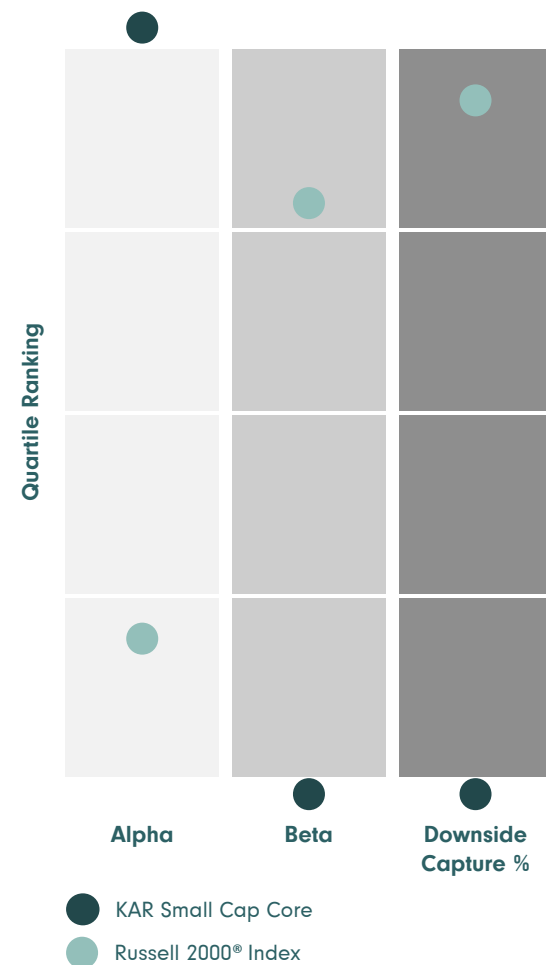
[‡]Net of all fees and expenses. Assumes a 1% annual fee.

[§]Performance calculations are for the nine months ended December 31, 1992.

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 Cap Core Universe includes all managers categorized in the small cap core 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.

Peer Comparison Chart

Ten Years Ending September 30, 2017



Performance Statistics

Inception* to September 30, 2017

	KAR Small Cap Core	Russell 2000 [®] Index
Annualized Return	13.13	9.62
Annualized Standard Deviation	14.79	18.53
Alpha	5.24	0.00
Beta	0.69	1.00
Sharpe Ratio	0.72	0.38
R-Squared	75.54	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, 2015.

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 Cap Core Composite has been examined for the period from January 1, 1999 through December 31, 2015. 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 includes all discretionary institutional and pooled Small Cap Core Portfolios. 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. 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 April 1992. 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 December 31, 2010, only non-taxable portfolios are included in the composite. As of January 1, 2011, the composite was redefined to include both taxable and tax-exempt accounts. 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. 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.

The standard management fee schedule currently in effect is as follows: 1.00% for the first \$25 million; 0.80% on the next \$25 million; 0.70% 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 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 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		20.61	25.34
2012		15.26	20.48
2013		11.81	16.68
2014		9.79	13.31
2015		11.28	14.16
2016		12.50	15.99

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2000® Index Annual Return (%)	Internal Dispersion
2007	5,392	138	41	3.16	2.14	(1.57)	0.48
2008	3,445	69	31	(27.64)	(28.40)	(33.79)	0.54
2009	4,010	75	23	32.09	30.80	27.17	0.55
2010	4,729	63	22	25.00	23.79	26.85	0.76
2011	5,232	362	88	10.14	9.08	(4.18)	0.67
2012	6,545	541	102	13.42	12.29	16.35	0.33
2013	7,841	1,018	121	30.10	28.84	38.82	1.41
2014	7,989	965	145	7.51	6.43	4.89	0.24
2015	8,095	1,048	157	2.37	1.36	(4.41)	0.23
2016	9,989	1,303	209	19.10	17.93	21.31	0.49

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