

## Small Cap Quality Value Portfolio

Fourth Quarter 2017

### Portfolio Review

The Small Cap Quality Value portfolio outperformed the Russell 2000 Value Index during the fourth quarter. The outperformance was largely driven by strong stock selection in the consumer discretionary and financial services sectors. Performance was hurt by negative stock selection in the consumer staples and health care sectors.

Positions that contributed most positively to performance during the quarter were SiteOne Landscape Supply and Thor Industries.

SiteOne continues to consolidate the industry and has seen accelerating organic daily sales growth. With the increased scale and with initiatives like improving supply chain, SiteOne has been able to expand gross margins, which over time should translate into improving operating margin. The company has a 10% share of the entire wholesale landscape market and, in the long run, should have plenty of runway for growth and further margin leverage.

Thor saw its stock increase over the quarter after it reported strong new unit sales and additional progress in improving the margins of recently acquired Jayco. Thor, along with the overall industry, continues to benefit from younger buyers entering the RV market with purchases of entry-level towable units. These new buyers are not only beneficial to current sales but also represent future sales for the industry as these customers will eventually upgrade their vehicles. As such, we expect Thor's revenue, margin and return on equity to continue to increase.

Positions that detracted the most from performance during the quarter were National Beverage and RE/MAX Holdings.

While National Beverage has seen weak performance in its carbonated soft drink brands like the rest of the industry, these declines have been more than offset by growth in its sparkling water portfolio, particularly the LaCroix brand, whose strong sales have helped drive share price for most of the year. While National Beverage's latest financial results showed growth in revenue and earnings per share, the stock price declined during the quarter due to valuation concerns and not the fundamentals of the business. We believe LaCroix has significant additional opportunities to grow its distribution, and the recent launch of a new Shasta branded line of flavored sparkling water may be rewarding as well, so we remain shareholders.

RE/MAX saw its shares fall during the quarter as an internal investigation resulted in a delayed 3Q earnings report. A group of independent directors is looking into an undisclosed loan from the founder to the co-CEO and other potential employment practice violations. Despite this investigation, RE/MAX confirmed business fundamentals remain solid, and we expect this to continue going forward. We remain confident in RE/MAX's capital-light business model and its ability to generate superior returns over the long term.

### Purchases and Sales

This quarter we made no new purchases in the Small Cap Quality Value portfolio. We completely closed our position in Monotype Imaging Holdings.

Monotype provides communications design technology and controls some of the world's most popular fonts. Though the company has finally seen some stabilization in its core font business, the company once again lowered its guidance for its acquired business Olapic. The lower guidance for Olapic was attributed to the revenue recognition similar to the SaaS recognition. But the fact that the company just realized this after almost a year of Olapic ownership speaks to the fast-changing nature of the industry that Olapic competes in, and thus gives us less conviction in the long-term operating model of this new business segment. The stock reacted positively to the stabilization of the core business, and we used this strength to sell the stock.

### 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.

### Portfolio Highlights

**Style:** Small Cap  
**Sub-Style:** Value  
**Index:** Russell 2000® Value  
**Portfolio Inception:** 1998  
**Portfolio Assets:** \$3,071.8 M  
**Portfolio Turnover:** 25%–35%

### Investment Management Team

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

### Top Five Holdings

As of December 31, 2017

Company	Percent of equity (%)
SiteOne Landscape Supply	5.6
Thor Industries	5.3
Cheesecake Factory	4.6
Scotts Miracle-Gro	4.4
RBC Bearings	4.3
<b>Total</b>	<b>24.3</b>

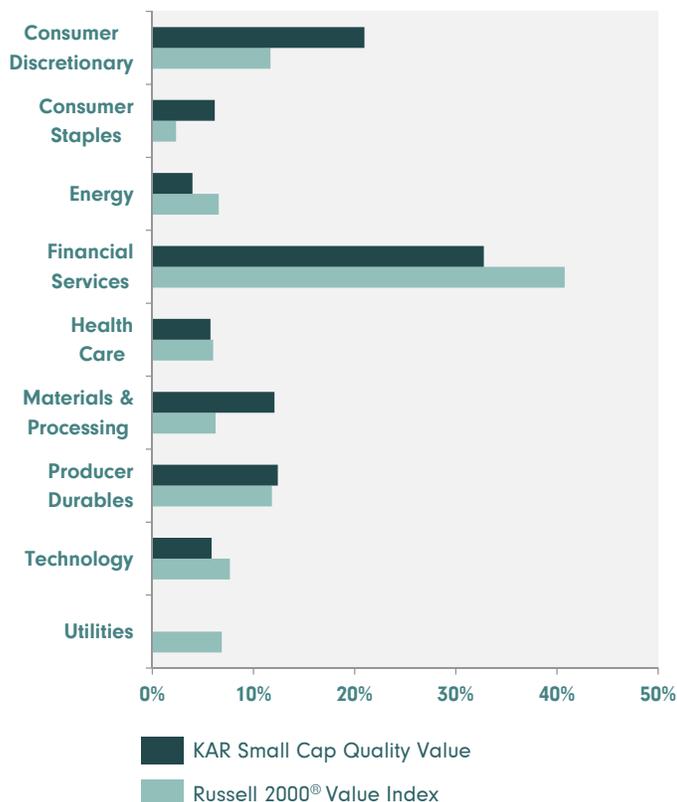
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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

<b>Development of High-Quality Universe</b>	<b>Proprietary Fundamental Research</b>	<b>Portfolio Construction</b>	<b>Sell Discipline</b>
<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>50-60 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>20-35 Stocks</b> <b>Position Weights</b> <ul style="list-style-type: none"> <li>Typically 3%-4%</li> <li>Maximum weight 10% (at market)</li> </ul> <b>Sector Tolerances</b> <ul style="list-style-type: none"> <li>Typically +/- 10% of the Russell 2000® Value Index, utilizing Russell 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>
<b>Higher Quality   Stronger, More Consistent Growth   Better Value</b>			

## Sector Diversification

As of December 31, 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 December 31, 2017

	KAR Small Cap Quality Value	Russell 2000® Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	22.8%	7.4%
Total Debt/EBITDA	1.7 x	8.4 x
Earnings Variance—Past 10 Years	22.1%	85.0%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	8.2%	5.0%
Earnings Per Share Growth—Past 10 Years	11.0%	5.6%
Dividend Per Share Growth—Past 5 Years	11.2%	7.3%
Dividend Per Share Growth—Past 10 Years	11.7%	3.0%
Capital Generation—{ROE x (1-Payout)}	12.1%	5.2%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	27.2 x	30.0 x
Dividend Yield	1.6%	1.8%
Free Cash Flow Yield†	3.8%	1.7%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$3.0 B	\$1.8 B
Largest Market Cap—3-Year Avg.	\$7.2 B	\$6.5 B
Annualized Standard Deviation—Since Inception*	15.9%	18.2%

\*June 1, 1998

†Free cash flow data is as of September 30, 2017. Prices are as of December 31, 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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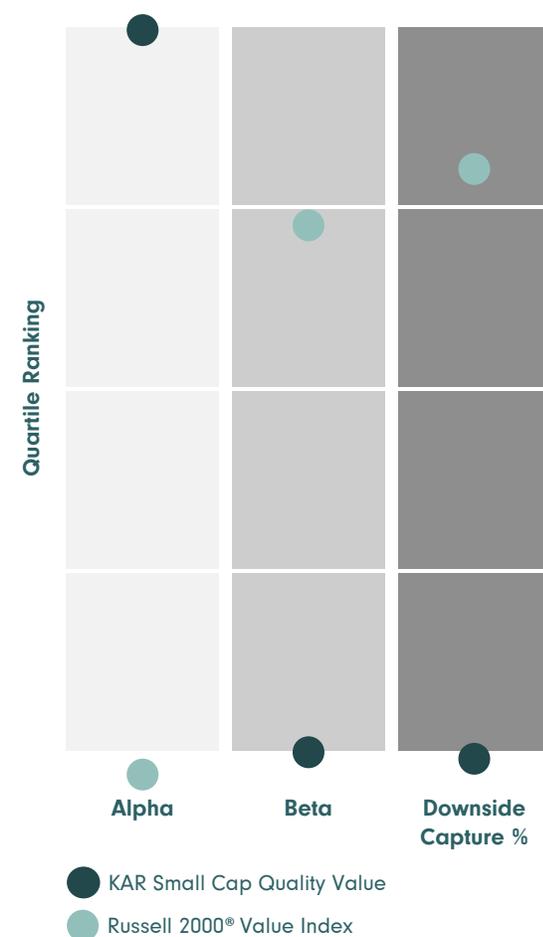
## Strong Risk-Adjusted Returns

Inception\* to December 31, 2017



## Peer Comparison Chart

Inception\* to December 31, 2017



## Historical Returns

	KAR Small Cap Quality Value (gross)	KAR Small Cap Quality Value (net) <sup>†</sup>	Russell 2000 <sup>®</sup> Value Index
<b>Annualized Returns (%)<sup>†</sup></b>			
As of December 31, 2017			
4 <sup>th</sup> Quarter	4.85	4.60	2.05
One Year	20.29	19.11	7.84
Three Years	15.03	13.90	9.55
Five Years	17.21	16.06	13.01
Seven Years	14.58	13.45	10.84
Ten Years	11.40	10.30	8.17
Inception*	12.31	11.21	8.53

	KAR Small Cap Quality Value (gross)	KAR Small Cap Quality Value (net) <sup>†</sup>	Russell 2000 <sup>®</sup> Value Index
<b>Annual Returns (%)</b>			
2017	20.29	19.11	7.84
2016	26.74	25.50	31.74
2015	(0.16)	(1.16)	(7.47)
2014	3.05	2.00	4.22
2013	41.06	39.72	34.52
2012	9.97	8.87	18.05
2011	6.57	5.54	(5.50)
2010	25.10	23.88	24.50
2009	26.97	25.73	20.58
2008	(28.51)	(29.26)	(28.92)
2007	2.19	1.18	(9.78)
2006	24.45	23.25	23.48
2005	8.88	7.79	4.71
2004	28.10	26.83	22.25
2003	21.88	20.69	46.03
2002	1.11	0.10	(11.43)
2001	19.42	18.29	14.02
2000	24.92	23.70	22.83
1999	(7.69)	(8.60)	(1.49)
1998 <sup>§</sup>	9.61	9.07	(10.93)

\*June 1, 1998

<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.

<sup>§</sup>Performance calculations are for the seven months ended December 31, 1998.

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 Value Universe includes all managers categorized in the small cap value 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.

## Performance Statistics

Inception\* to December 31, 2017

	KAR Small Cap Quality Value	Russell 2000 <sup>®</sup> Value Index
Annualized Return	12.31	8.53
Annualized Standard Deviation	15.93	18.15
Alpha	5.06	0.00
Beta	0.76	1.00
Sharpe Ratio	0.65	0.37
R-Squared	75.30	100.00

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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 from January 1, 1999 through December 31, 2016.

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 Quality Value Composite has been examined for the period from January 1, 1999 through December 31, 2016. 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 fully discretionary institutional and pooled Small Cap Quality Value Portfolios. Small Cap Quality Value Portfolios are invested in equity securities with capitalizations consistent with the Russell 2000® Value 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® Value Index. The Russell 2000® Value Index is a market capitalization-weighted index of value-oriented stocks 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 independent verifiers. The composite was created in June 1998. Previously, only institutional accounts were included. 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. As of January 1, 2011, the composite was redefined to include both institutional and mutual fund [or pooled] accounts. 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	21.64	26.42
2012	16.24	20.17
2013	14.50	16.05
2014	13.06	12.98
2015	13.94	13.65
2016	14.30	15.72

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2000® Value Index Annual Return (%)	Internal Dispersion
2007	5,392	107	62	2.19	1.18	(9.78)	0.56
2008	3,445	64	68	(28.51)	(29.26)	(28.92)	0.56
2009	4,010	71	66	26.97	25.73	20.58	0.80
2010	4,729	98	77	25.10	23.88	24.50	0.60
2011	5,232	521	106	6.57	5.54	(5.50)	0.48
2012	6,545	474	120	9.97	8.87	18.05	0.35
2013	7,841	646	142	41.06	39.72	34.52	1.05
2014	7,989	581	149	3.05	2.00	4.22	0.52
2015	8,095	535	151	(0.16)	(1.16)	(7.47)	0.20
2016	9,989	711	141	26.74	25.50	31.74	1.13

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