



## PORTFOLIO OVERVIEW

The Small Cap Quality Value Portfolio outperformed the Russell 2000 Value Index during the quarter helped primarily by strong outperformance in the consumer-discretionary and financial-services sectors where the portfolio's high-quality sector holdings are very different from those of the benchmark.

The companies that contributed the most to performance during the quarter included CARBO Ceramics and Tempur-Pedic International. CARBO Ceramics continues to benefit from new oil shale plays, such as the Bakken, where ceramic proppant conductivity is even more important than that of the predominant gas shales. As a result from the strong demand for ceramic proppants, the company reported all-time quarter high for earnings per share. Furthermore, the company has announced additional capacity expansion for ceramic proppants and ceramic coated sand. Tempur-Pedic International saw its shares rise in the quarter after posting financial results that showed ongoing improvement in the premium mattress category despite the lack of a housing recovery. The company has been able to maintain profitability and improve margins through effective cost-cutting and the successful introduction of its new Cloud line. Also, Tempur-Pedic continues to generate strong free cash flow that has been used to pay down its debt levels.

The companies that contributed the least to performance during the quarter included Life Partners Holdings and Suffolk Bancorp. Life Partners Holdings' stock came under pressure in mid-January following news of the company being investigated by the SEC. Although no official details were provided, the company's underwriting practices were suspected to be under scrutiny and, particularly, the company's long-standing relationship with one individual medical expert—a relationship perceived as unusual for a company of its size. The stock suffered further in late January after the company made a significant reduction in its targeted investor returns marketed with the change likely to meaningfully reduce retail investor demand for the life settlement asset class as whole. Suffolk Bancorp's stock came under pressure following the company's reports of higher-than-anticipated loan loss provisioning. With bank regulators under pressure, they now adhere to a highly conservative estimate-based approach to loan loss provisioning versus an experience-based methodology used by the industry in the past, thus, punishing stronger players, like Suffolk, for the aggressive underwriting and capital allocation decisions of their peers.

## PURCHASES AND SALES

In the Small Cap Quality Value Portfolio, we sold Matthews International. There were no new purchases during the quarter.

Matthews International's venture outside its core bronze memorial market has met with mixed success. Over the past decade as acquisitions were made outside the core business, the company has continued to see a decline in its return on capital. We hoped this trend would reverse as the company made fewer and smaller acquisitions, however, the situation has only stabilized, not reversed. While Matthews still delivers good free-cash-flow generation and boasts a solid balance sheet, debt has increased over the past years. The structural shift of acquiring lower return on investment businesses and using debt as a funding vehicle is likely to continue.

## OUTLOOK

The economic recovery has clearly taken hold and the financial system has stabilized. However, we continue to operate in an environment where small and mid-size businesses, the backbone of the U.S. economy, are increasingly optimistic about future growth, but are still hesitant to commit to meaningful increases in human and physical capital. Further, unemployment remains high, thus restraining ongoing consumer spending which makes up nearly three quarters of the U.S. economy. These factors diminish the likelihood of a swift economic recovery. We believe that the businesses in which we invest—those that have significant control over their markets and do not depend on external financing—will prosper in such an environment.

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: Value  
Index: Russell 2000® Value  
Portfolio Inception: 1998  
Portfolio Assets: \$1,355.5 M  
Portfolio Turnover: 25%–35%

## INVESTMENT MANAGEMENT TEAM

NAMES	YEARS of research experience
Robert Schwarzkopf, CFA <i>CIO + Portfolio Manager</i>	30
Julie Kutasov <i>Portfolio Manager + Senior Research Analyst</i>	10
Craig Stone <i>Portfolio Manager + Senior Research Analyst</i>	22
Todd Beiley, CFA <i>Senior Research Analyst</i>	12
Jon Christensen, CFA <i>Senior Research Analyst</i>	16
Craig Thrasher, CFA <i>Research Analyst</i>	6
Gregory Toppe, CFA <i>Research Analyst</i>	11
Aaron Reed, CIMA, CIMC <i>Senior Portfolio Advisor</i>	21

## TOP FIVE HOLDINGS

as of March 31, 2011

COMPANY	PERCENT of equity (%)
Tempur-Pedic International	6.3
First Cash Financial Services	6.0
World Fuel Services	5.7
John Wiley & Sons	5.3
Landstar System	5.2
<b>Total</b>	<b>28.5</b>

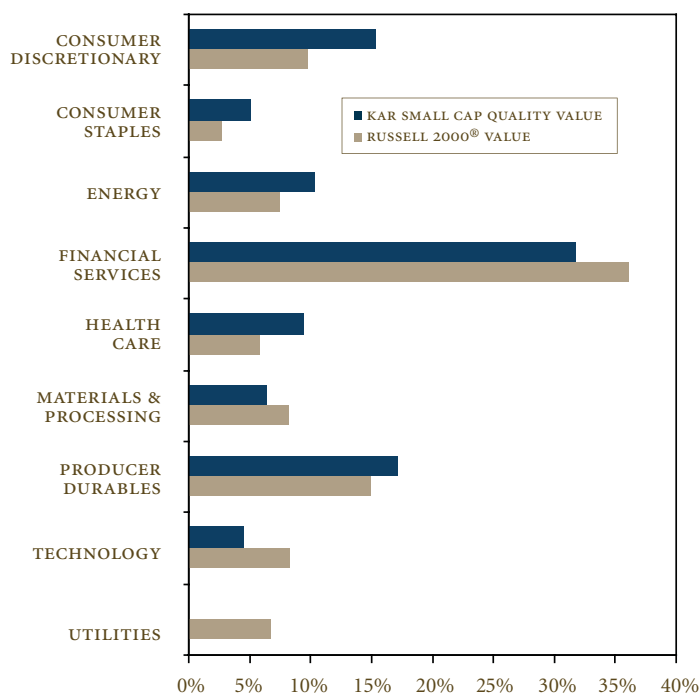
A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. Holdings and weightings listed above are based on a representative portfolio of the Kayne Anderson Rudnick Small Cap Quality Value strategy.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

INVESTMENT PROCESS—DISCOVERING QUALITY



SECTOR DIVERSIFICATION

as of March 31, 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 March 31, 2011

KAR Small Quality Value Russell 2000® Value

QUALITY	KAR Small Quality Value	Russell 2000® Value
Return on Equity—Past 5 yrs.	23.6%	7.3%
Total Debt/EBITDA	0.9x	7.6x
Earnings Variance—Past 10 yrs.	21.0%	107.2%
S&P Stock Ranking (A+, A, A-, B+)	83.0%	20.7%
GROWTH		
Earnings Per Share Growth—Past 5 yrs.	7.1%	0.2%
Earnings Per Share Growth—Past 10 yrs.	12.0%	3.4%
Dividend Per Share Growth—Past 5 yrs.	11.3%	-3.9%
Dividend Per Share Growth—Past 5 yrs.	12.5%	2.7%
Capital Generation—(ROE x {1-Payout})	15.9%	5.9%
VALUE		
P/E Ratio—Trailing 12 Months	17.1x	26.5x
Dividend Yield	1.9%	1.8%
Free Cash Flow Yield†	5.1%	2.5%
MARKET CHARACTERISTICS		
\$ Weighted Avg. Market Cap—4 Qtr. Avg.	\$1.7 B	\$1.1 B
Largest Market Cap—4 Qtr. Avg.	\$3.7 B	\$3.4 B
Annualized Standard Deviation—Since Inception*	17.0%	19.6%

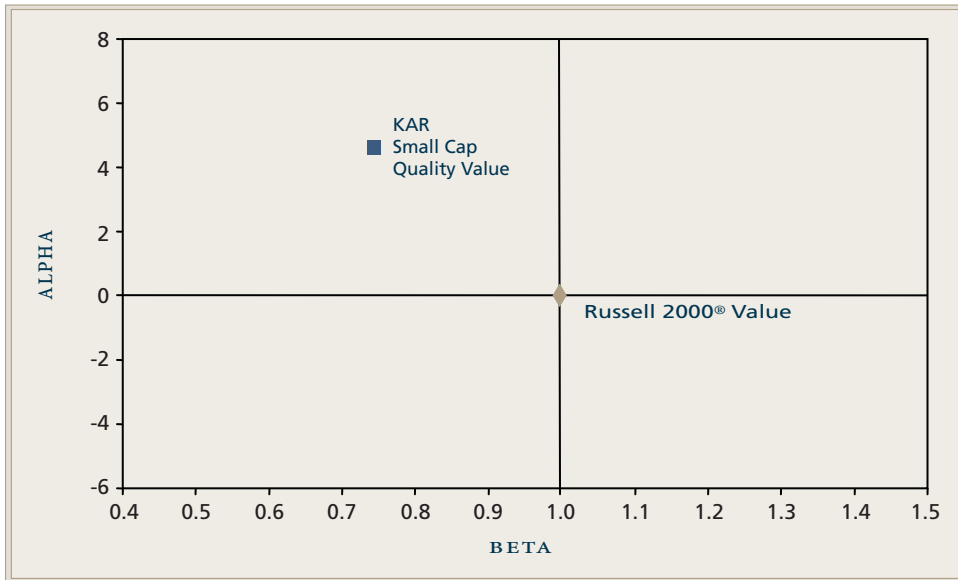
\*June 1, 1998

†Free cash flow data is as of December 31, 2010. Prices are as of March 31, 2011. Excludes financials.

This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Results shown reflect past performance and are not indicative of future results. 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 March 31, 2011



\*June 1, 1998

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**HISTORICAL RETURNS**

	KAR Small Cap Quality Value (gross)	KAR Small Cap Quality Value (net)†	Russell 2000® Value
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ANNUALIZED RETURNS (%)\*  
as of March 31, 2011

1st Quarter	9.66	9.39	6.60
One Year	28.67	27.44	20.63
Three Years	12.48	11.36	6.76
Five Years	7.77	6.70	2.23
Seven Years	11.11	10.01	6.13
Ten Years	12.81	11.70	9.01
Inception‡	11.64	10.55	7.66

ANNUAL RETURNS (%)

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	14.03
2000	24.92	23.70	22.83
1999	-7.69	-8.60	-1.49

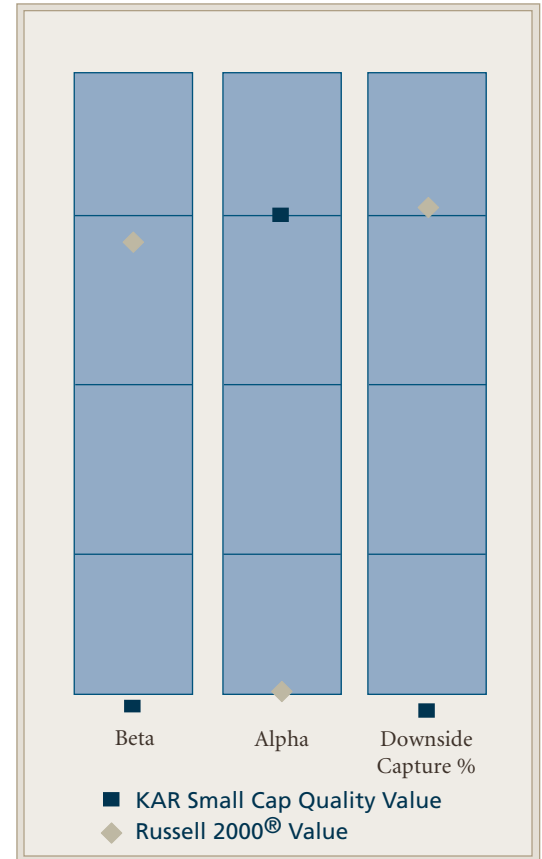
\*All periods less than one year are total returns and are not annualized. Returns are preliminary.

†Net of all fees and expenses. Assumes a 1% annual fee.

‡June 1, 1998

**PEER COMPARISON CHART**

Inception\* to December 31, 2010



**PERFORMANCE STATISTICS**

Inception\* to March 31, 2011

	KAR Small Cap Quality Value	Russell 2000® Value
ANNUALIZED RETURN	11.64	7.66
ANNUALIZED STANDARD DEVIATION	17.01	19.56
ALPHA	4.98	0.00
BETA	0.74	1.00
SHARPE RATIO	0.52	0.25
R-SQUARED	72.40	100.00

\*June 1, 1998

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 Advisors 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. Additional information regarding the firm's policies and procedures for calculating and reporting performance is available upon request. The firm maintains a complete list and description of composites, which is available upon request.

The composite is defined as all fully discretionary, non-wrap fee Small Cap Quality Value Portfolios (including cash) under management for at least one full quarter. The minimum account size for this composite is \$250,000. 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. The composite was created in June 1998. There was a change in personnel in April 2008 and February 2009. No alteration of the composite as presented here has occurred because of this change.

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 net of transaction fees and include the reinvestment of all income. Trade date accounting is used. Performance has been calculated by geometrically linking monthly returns with accounts entering and exiting the composite quarterly.

Gross annual returns will be reduced by investment management fees and other expenses that may be incurred in the management of the account. Net annual returns have been calculated after the

deduction of an assumed maximum annual fee of 1%. The effect on performance would grow at a compounded rate. Over a five-year period, if a \$250,000 portfolio had an annual return of 10%, it would grow to \$402,628. The net compounded effect of a 1% annual investment management fee would total \$17,972 and result in a portfolio value of \$384,656. A fee schedule is available upon request and is described in Part II of the firm's ADV.

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	% of Non Fee-Paying Accounts	Gross Annual Return (%)	Net Annual Return (%)	Russell 2000® Value Annual Return	Annual Standard Deviation
2001	8,384	LESS THAN 1	<5	0	19.42	18.29	14.03	0
2002	8,612	4	<5	0	1.11	0.10	(11.43)	0
2003	10,262	5	<5	0	21.88	20.69	46.03	0.08
2004	10,320	7	7	0	28.10	26.83	22.25	0.41
2005	8,533	37	23	0	8.88	7.79	4.71	0.19
2006	6,523	62	56	0	24.45	23.25	23.48	0.47
2007	5,392	107	62	0	2.19	1.18	(9.78)	0.56
2008	3,445	64	68	0	(28.51)	(29.26)	(28.92)	0.56
2009	4,069	71	66	0	26.97	25.73	20.58	0.80
2010	4,811	98	77	0	25.10	23.88	24.50	0.60

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