



## PORTFOLIO OVERVIEW

Low-quality stocks, as measured by S&P Quality Rankings, outperformed high-quality stocks during the quarter. Further, stocks with below-investment-grade credit ratings rose sharply in the quarter as the companies that require higher financial leverage benefited the most from the recent improvement in the credit markets. With the underperformance of high-quality stocks, the Small Cap Sustainable Growth Portfolio underperformed the Russell 2000 Growth Index in the third quarter. Importantly, however, the portfolio's "unrecognized quality" stocks, or those stocks that do not have an S&P stock ranking, significantly outperformed the Not Categorized companies in the Russell 2000 Growth Index.

The companies that contributed the most to performance during the quarter included Blackbaud and Abaxis. For the last 12 months, Blackbaud suffered as investors worried about the recession's effect on non-profit budgets, which are largely dependent upon private donations and investment portfolios. As concerns about the length and depth of the recession have somewhat eased, investors rewarded the shares. Abaxis reported healthy sales and earnings growth driven by ongoing market penetration of its unique testing device, which led to a rise in the company's shares amid subdued investor expectations.

The companies that contributed the least to performance during the quarter included Aaron's and Copart. Aaron's had its shares fall in the quarter after significantly outperforming the market in 2008 and first quarter 2009. The company has continued to post strong financial results as credit-constrained customers utilize their services. However, as hopes of an economic recovery and looser credit conditions have emerged, investors have shifted to more speculative investments. Investors reacted negatively when Copart announced significant marketing expenditures for NASCAR and NHRA sponsorships in fiscal 2010 that will reduce earnings meaningfully. While we are somewhat skeptical regarding the ultimate success of this venture, we do not think it will meaningfully reduce the long-term potential or value of the company.

## PURCHASES AND SALES

There were no purchases or sales in the Small Cap Sustainable Growth Portfolio during the quarter.

## OUTLOOK

Despite the unprecedented global fiscal and monetary policy support and recent stabilization in the financial system, we continue to operate in an environment where credit remains both more expensive and less available as financial institutions rein in their lending standards. Further, unemployment is hitting 26-year highs, weakening ongoing consumer spending which makes up nearly three quarters of the U.S. economy. These factors decrease the likelihood of a sharp or swift economic recovery. Amid this environment, we believe the businesses in which we invest—those that have significant control over their markets and do not depend on external financing—will prosper. As always, we endeavor to manage your portfolio with the highest quality businesses, outgrowing their markets, purchased at discount values.

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: Growth  
Index: Russell 2000® Growth  
Portfolio Inception: 1998  
Portfolio Assets: \$104.6 M  
Portfolio Turnover: 25%–35%

## INVESTMENT MANAGEMENT TEAM

NAMES	YEARS of research experience
Robert Schwarzkopf, CFA <i>CIO + Portfolio Manager</i>	28
Todd Beiley, CFA <i>Portfolio Manager + Senior Research Analyst</i>	10
Jon Christensen, CFA <i>Portfolio Manager + Senior Research Analyst</i>	14
Julie Kutasov, CPA <i>Senior Research Analyst</i>	8
Craig Stone <i>Senior Research Analyst</i>	20
Craig Thrasher, CFA <i>Research Analyst</i>	4
Gregory Toppe, CFA <i>Research Analyst</i>	9
Brian Elliott <i>CMO + Senior Portfolio Advisor</i>	18
Aaron Reed, CIMA, CIMC <i>Senior Portfolio Advisor</i>	19
Steve Weyland, CFA <i>Senior Portfolio Advisor</i>	18

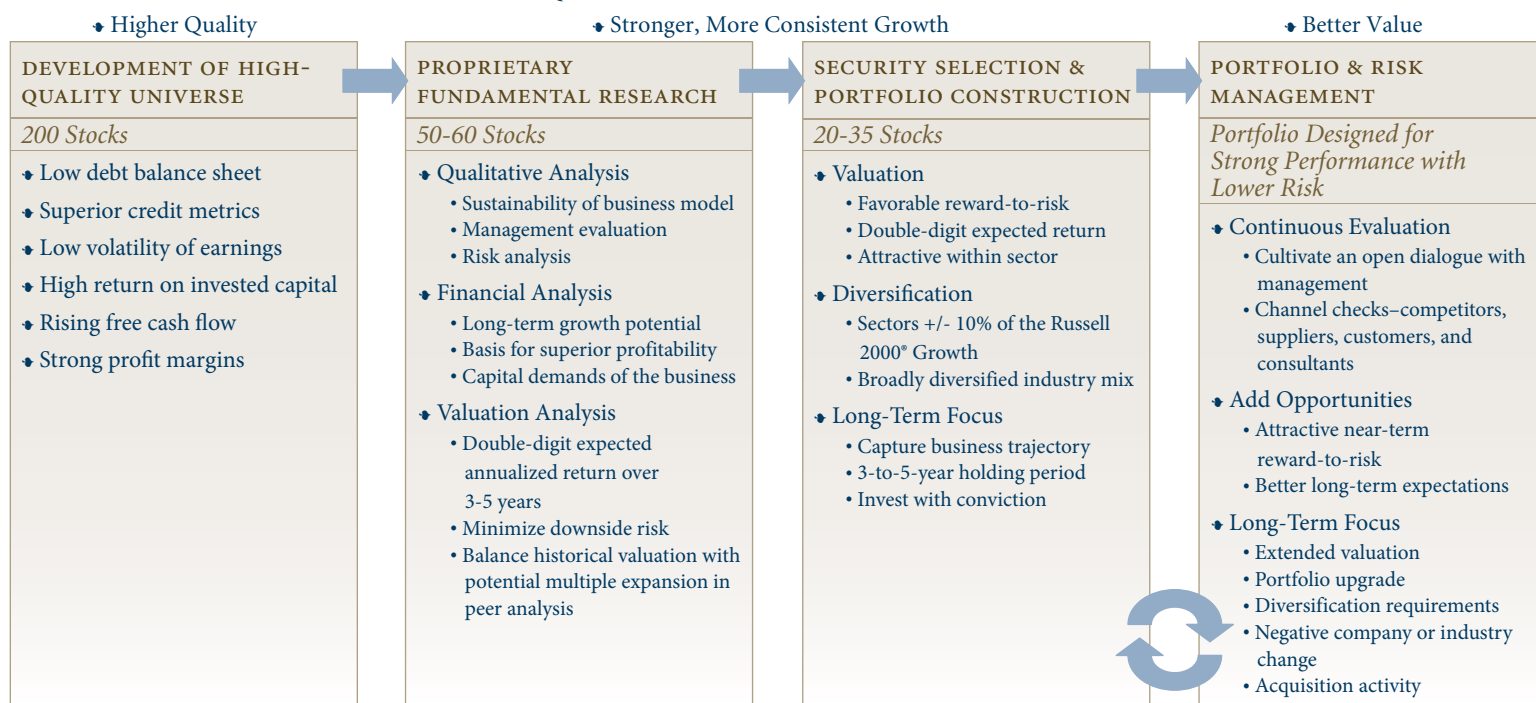
## TOP FIVE HOLDINGS

as of September 30, 2009

COMPANY	PERCENT of equity (%)
Blackbaud	6.9
ANSYS	6.4
Abaxis	6.3
Techne	5.6
ScanSource	5.5
<b>Total</b>	<b>30.7</b>

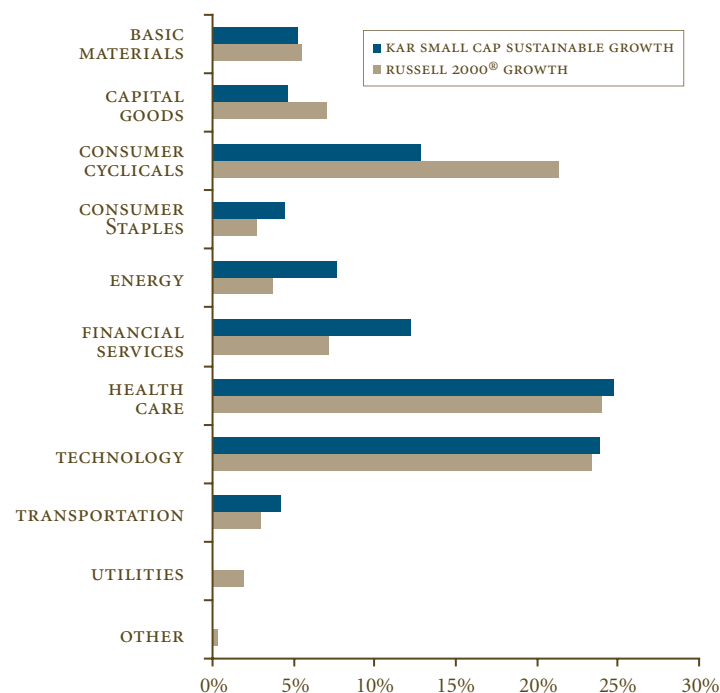
A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. Holdings and weightings listed above are based on a representative portfolio of the Kayne Anderson Rudnick Small Cap Sustainable Growth strategy.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

**INVESTMENT PROCESS—DISCOVERING QUALITY**



**SECTOR DIVERSIFICATION**

as of September 30, 2009



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. The names of the sectors have been modified from the original Russell naming convention to better describe the underlying data (e.g., Autos & Transportation has been changed to Transportation). Certain securities may be re-classified from the standard Russell sector classification based upon the company's primary business source, as determined by the portfolio managers.

**PORTFOLIO CHARACTERISTICS**

as of September 30, 2009

	KAR Small Cap Sustainable Growth	Russell 2000® Growth
<b>QUALITY</b>		
Return on Equity—Past 5 yrs.	23.1%	12.1%
Total Debt/EBITDA	0.6x	4.4x
Interest Expense Coverage	22.4x	11.0x
Earnings Variance—Past 10 yrs.	33.2%	91.0%
S&P Stock Ranking (A+, A, A-)	13.0%	5.0%
<b>GROWTH</b>		
Earnings Per Share Growth—Past 5 yrs.	23.3%	14.2%
Earnings Per Share Growth—Past 10 yrs.	22.1%	12.4%
Capital Generation—(ROE x {1-Payout})	19.4%	11.1%
<b>VALUE</b>		
P/E Ratio—Trailing 12 Months	23.0x	94.9x
P/E-to-10-Year Growth	1.0x	7.6x
Free Cash Flow Yield†	6.3%	0.1%
<b>MARKET CHARACTERISTICS</b>		
\$ Weighted Avg. Market Cap—4 Qtr. Avg.	\$1.3 B	\$0.9 B
Largest Market Cap—4 Qtr. Avg.	\$3.2 B	\$3.3 B
Annualized Standard Deviation—Since Inception*	22.9%	28.6%

\*January 1, 1998

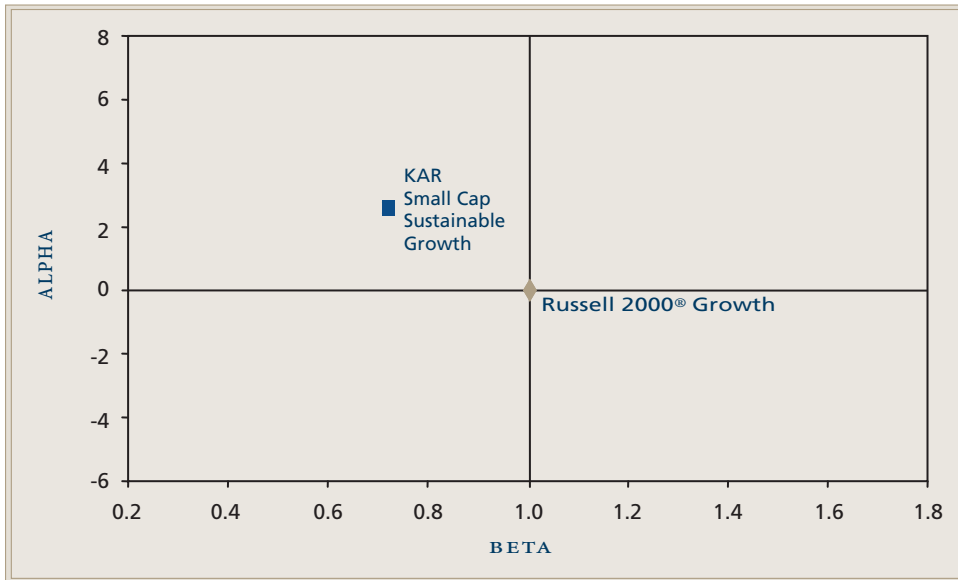
†Free cash flow data is as of June 30, 2009. Prices are as of September 30, 2009. Excludes financials.

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 September 30, 2009



\*January 1, 1998

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## HISTORICAL RETURNS

	KAR Small Cap Sustainable Growth (gross)	KAR Small Cap Sustainable Growth (net)†	Russell 2000® Growth
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ANNUALIZED RETURNS (%)\*  
as of September 30, 2009

3rd Quarter	14.26	14.00	15.95
Year to Date	32.07	31.12	29.12
One Year	-3.77	-4.76	-6.32
Three Years	-2.64	-3.62	-2.60
Five Years	2.69	1.66	2.91
Seven Years	7.51	6.43	9.02
Ten Years	4.57	3.53	1.10
Inception‡	4.98	3.94	1.64

ANNUAL RETURNS (%)

2008	-33.61	-34.32	-38.54
2007	-0.59	-1.59	7.05
2006	15.80	14.66	13.35
2005	1.88	0.85	4.15
2004	12.82	11.68	14.31
2003	38.44	37.10	48.54
2002	-23.82	-24.60	-30.26
2001	0.48	-0.49	-9.23
2000	6.28	5.22	-22.43
1999	31.19	29.92	43.09
1998	3.33	2.28	1.23

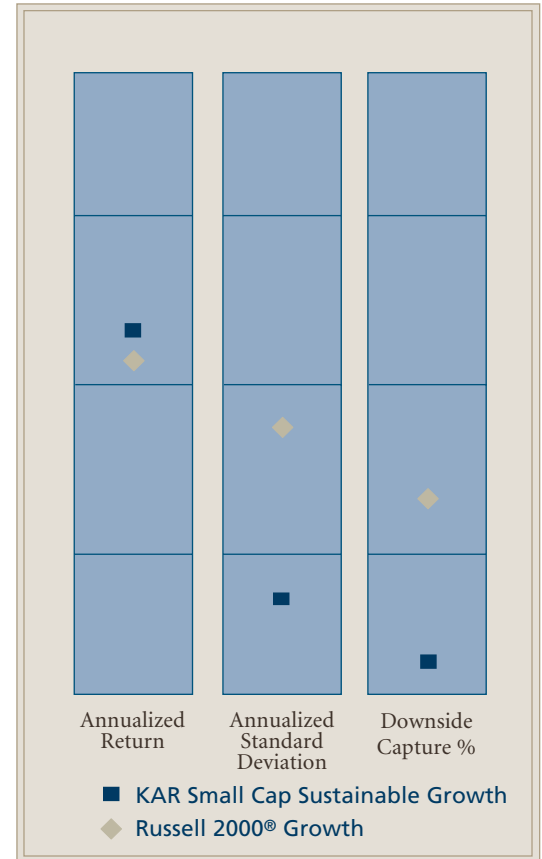
\*All periods less than one year are total returns and are not annualized. Returns are preliminary.

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

‡January 1, 1998

## PEER COMPARISON CHART

Three Years Ending June 30, 2009



## PERFORMANCE STATISTICS

Inception\* to September 30, 2009

	KAR Small Cap Sustainable Growth	Russell 2000® Growth
ANNUALIZED RETURN	4.98	1.64
ANNUALIZED STANDARD DEVIATION	22.94	28.59
ALPHA	2.58	0.00
BETA	0.72	1.00
SHARPE RATIO	0.08	-0.06
R-SQUARED	80.19	100.00

\*January 1, 1998

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**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 Sustainable Growth 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® Growth Index. The Russell 2000® Growth Index is a market capitalization-weighted index of growth-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 January 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® Growth Annual Return	Annual Standard Deviation
1999	5,381	1	1	0	31.19	29.92	43.09	0.00
2000	6,686	1	1	0	6.28	5.22	(22.43)	0.00
2001	8,384	2	2	0	0.48	(0.49)	(9.23)	0.00
2002	8,612	1	3	0	(23.82)	(24.60)	(30.26)	0.00
2003	10,262	4	4	0	38.44	37.10	48.54	0.00
2004	10,320	28	25	0	12.82	11.68	14.31	0.60
2005	8,533	29	30	0	1.88	0.85	4.15	0.28
2006	6,523	31	30	0	15.80	14.66	13.35	0.31
2007	5,392	21	25	0	(0.59)	(1.59)	7.05	0.53
2008	3,445	12	14	0	(33.61)	(34.32)	(38.54)	1.04

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