

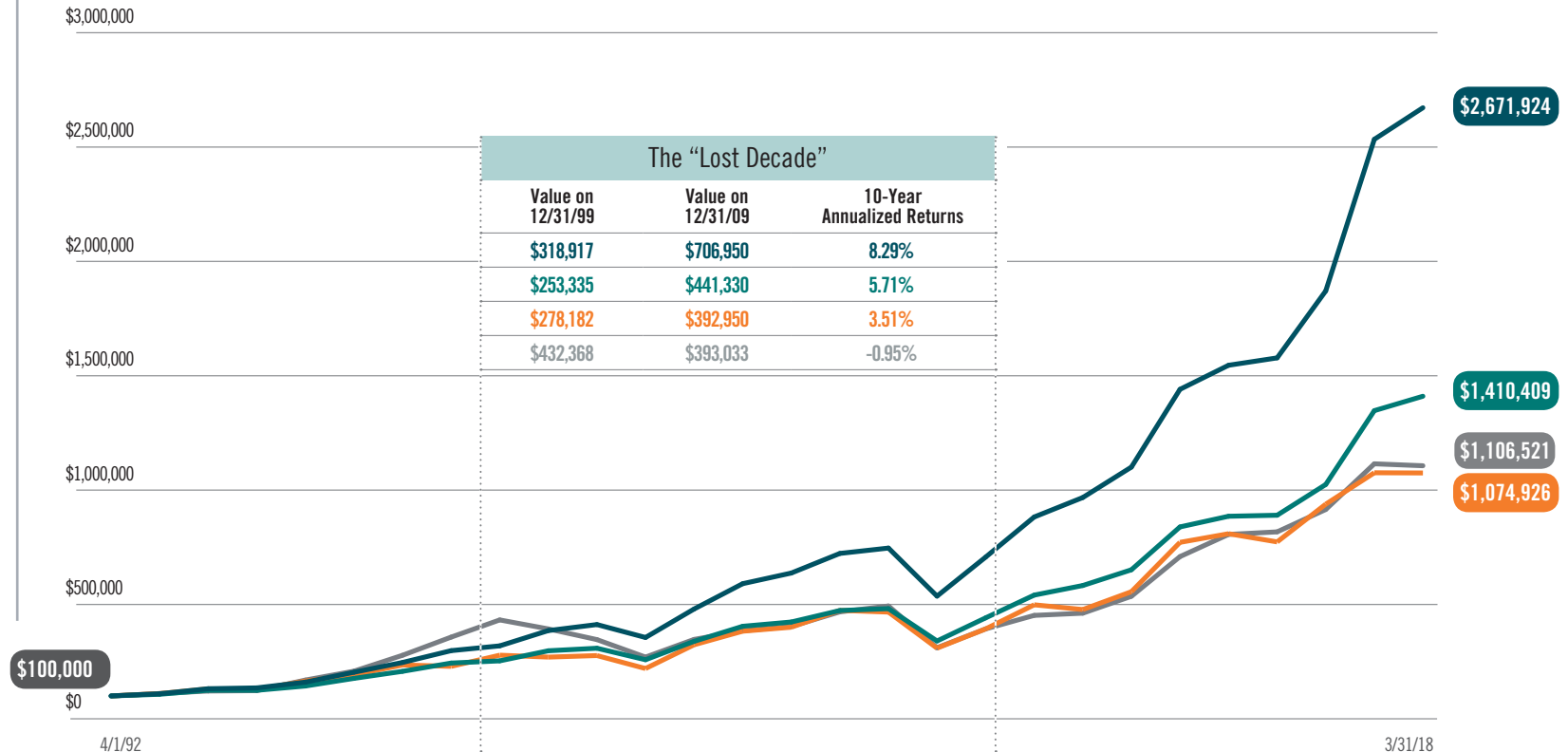
# KAR SMALL CAP CORE SEPARATELY MANAGED ACCOUNT

## OUTSMARTING VOLATILITY WITH A QUALITY FOCUS

Kayne Anderson Rudnick (KAR) believes that superior long-term risk-adjusted returns may be achieved by investing in high-quality companies with market dominance, excellent management, financial strength, and consistent growth, purchased at reasonable prices.

### GROWTH OF \$100,000: KAR SMALL CAP CORE VS. RUSSELL 2000® AND S&P 500® INDEXES

The KAR Small Cap Core portfolio has generated compelling long-term performance, with fewer down years, versus broader equity markets—even during the “lost decade” of the 2000s.



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 YTD
<b>KAR Small Cap Core (Gross)</b>	9.65	20.00	2.75	18.57	26.98	21.00	20.98	7.02	20.98	6.82	-13.73	35.02	23.07	7.87	13.46	3.25	-28.15	31.80	24.83	9.64	13.75	30.89	7.31	2.09	18.55	35.43	5.45
<b>KAR Small Cap Core (Net)</b>	7.25	16.54	-0.26	15.07	23.22	17.45	17.42	3.93	17.42	3.74	-16.34	31.19	19.42	4.63	11.87	1.71	-29.36	29.72	22.56	7.75	11.80	28.76	5.57	0.51	15.09	31.52	4.67
<b>Russell 2000® Index</b>	10.16	18.88	-1.82	28.45	16.49	22.36	-2.55	21.26	-3.02	2.49	-20.48	47.25	18.33	4.55	18.37	-1.57	-33.79	27.17	26.85	-4.18	16.35	38.82	4.89	-4.41	21.31	14.65	-0.08
<b>S&amp;P 500® Index</b>	10.41	10.08	1.32	37.58	22.96	33.36	28.58	21.04	-9.10	-11.89	-22.10	28.68	10.88	4.91	15.79	5.49	-37.00	26.46	15.06	2.11	16.00	32.39	13.69	1.38	11.96	21.83	-0.76

Past performance is not indicative of future results.

This material is deemed supplemental and complements the performance and disclosures on page 4.

Source: FactSet Research Systems, as compiled by Kayne Anderson Rudnick.

Returns for the KAR Small Cap Core composite are preliminary and gross/net of fees. For further details on the composite, including information on fees, please see the disclosure statement on page 4. Pure gross returns do not reflect the deduction of any expenses, including trading costs. Returns shown for 1992 represent nine months of performance only from April 1, 1992 (inception date of the strategy). Indexes are defined on page 2.

## USING HIGH-QUALITY EQUITIES FOR RETIREMENT INCOME REPLACEMENT

Historically low bond yields have complicated the quest for reliable income in retirement. Annual withdrawals from an equity portfolio can be a potential solution. The challenge is that market volatility can severely disrupt smart planning. Therefore, choosing investments with the potential for steadier compounding and better downside protection can help keep savings and withdrawals on track.

### CONSIDER THE FOLLOWING SCENARIO:

- Start with a \$100,000 investment in each of three vehicles: KAR Small Cap Core portfolio, Russell 2000® Index, and S&P 500® Index
- Withdraw 5% (\$5,000) in year one, then adjust withdrawals upward each subsequent year to neutralize a 3% inflation rate†
- The KAR portfolio and the indexes all generated sufficient income through withdrawals, though their ending values varied widely as of 3/31/18

	Initial Investment 4/1/92	Total Withdrawals† (1992-2017)	Ending Value 3/31/18
KAR SCC (Gross)	\$100,000	\$192,765	\$1,494,645
KAR SCC (Net)	\$100,000	\$192,765	\$605,577
Russell 2000® Index	\$100,000	\$192,765	\$445,514
S&P 500® Index	\$100,000	\$192,765	\$498,649

Even after withdrawing an inflation-adjusted 5% per year—a total of \$192,765—the KAR portfolio outperformed the portfolio's benchmark, the Russell 2000® Index, and the S&P 500® Index.

### KEY TAKEAWAY

A lower volatility approach has allowed the KAR portfolio to serve as a better income generator than the Russell 2000® Index and the S&P 500® Index.

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†Withdrawals taken on December 31st of each calendar year. Withdrawals may require the selling of shares, which may include principal.

Source: FactSet Research Systems, as compiled by Kayne Anderson Rudnick.

**IMPORTANT KAR SMALL CAP CORE SEPARATELY MANAGED ACCOUNT RISK CONSIDERATIONS: Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer specific events. Focus on a particular style or on small or medium-size companies may enhance that risk. **Limited Number of Investments:** Because the fund has a limited number of securities, it may be more susceptible to factors adversely affecting its securities than a less concentrated fund. **Industry/Sector Concentration:** A fund that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated fund.

**INDEX DEFINITIONS:** 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 **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The indexes are calculated on a total return basis with dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

## STARTING RETIREMENT DURING A MARKET DECLINE

As seen in this example, an investment that offered a more consistent return pattern, including smaller drawdowns, was better able to contribute to a healthy retirement account. This matters a lot in the long run, but is harder to see in a long bull market with big gains in the early years. It's easier to recognize when portfolio losses occur at the start of the decumulation phase of retirement. The table shows what happens when withdrawals from the three portfolios are started in 2000—the onset of a bear market. KAR believes an emphasis on profitable high-quality companies may provide a distinct advantage over passive vehicles that track broad equity indexes.

	Annual Withdrawal Amount (\$) <sup>‡</sup>	KAR SCC Market Value (Gross) (\$)	Return (%)	KAR SCC Market Value (Net) (\$)	Return (%)	Russell 2000® Index Market Value (\$)	Return (%)	S&P 500® Index Market Value (\$)	Return (%)
2000	5,000	115,976	20.98	112,423	17.42	91,979	-3.02	85,896	-9.10
2001	5,150	118,739	6.82	111,482	3.74	89,116	2.49	70,536	-11.89
2002	5,305	97,130	-13.73	87,966	-16.34	65,557	-20.48	49,643	-22.10
2003	5,464	125,683	35.02	109,938	31.19	91,072	47.25	58,419	28.68
2004	5,628	149,056	23.07	125,662	19.42	102,137	18.33	59,149	10.88
2005	5,796	154,985	7.87	125,688	4.63	100,992	4.55	56,258	4.91
2006	5,970	169,874	13.46	134,636	11.87	113,571	18.37	59,173	15.79
2007	6,149	169,243	3.25	130,790	1.71	105,643	-1.57	56,274	5.49
2008	6,334	115,260	-28.15	86,060	-29.36	63,615	-33.79	29,120	-37.00
2009	6,524	145,388	31.80	105,116	29.72	74,377	27.17	30,303	26.46
2010	6,720	174,763	24.83	122,113	22.56	87,631	26.85	28,148	15.06
2011	6,921	184,694	9.64	124,660	7.75	77,051	-4.18	21,821	2.11
2012	7,129	202,965	13.75	132,239	11.80	82,520	16.35	18,185	16.00
2013	7,343	258,321	30.89	162,922	28.76	107,213	38.82	16,732	32.39
2014	7,563	269,639	7.31	164,426	5.57	104,898	4.89	11,459	13.69
2015*	7,790	267,475	2.09	157,469	0.51	92,478	-4.41	3,828	1.38
2016*	8,024	309,080	18.55	173,212	15.09	104,159	21.31	0	11.96
2017*	8,264	410,322	35.43	219,545	31.52	111,152	14.65	0	21.83
2018 YTD	N/A	<b>432,685</b>	5.45	<b>229,798</b>	4.67	<b>111,063</b>	-0.08	<b>0</b>	-0.76
Total	<b>\$117,072</b>	Average Annual Returns	12.35		9.86		7.69		5.28

## KEY TAKEAWAY

Because it played defense well in the early choppy markets, the KAR portfolio provided the required withdrawals and created the larger nest egg. Despite a sharp market rebound in 2003 after a difficult start, the S&P 500® portfolio never fully recovered and ran out of money.

To learn more about Kayne Anderson Rudnick's relentless focus on high-quality businesses, contact us at 1-800-243-4361 or visit [virtus.com](http://virtus.com).

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This material is deemed supplemental and complements the performance and disclosures on page 4.

‡Withdrawals taken in December 31st of each calendar year. Withdrawals may require the selling of shares, which may include principal. \*The S&P 500 falls short of the income goal, providing a partial distribution of \$3,828 in 2015, which reduced the portfolio to zero, and did not allow for distributions in 2016 and 2017. Source: FactSet Research Systems, as compiled by Kayne Anderson Rudnick.

## KAR SMALL CAP CORE SEPARATELY MANAGED ACCOUNT PORTFOLIO 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 Core Wrap 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 Small Cap Core Wrap Portfolios. Small Cap Core Wrap 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 October 1995. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

Beginning on January 1, 2006, sub-advisory wrap fee portfolios are also included in composite results. Each sub-advisory relationship is included in the composite as one account. Prior to January 1, 2011, accounts that experienced a significant cash flow, defined as aggregate flows that exceed 25% of the account's beginning of period market value, were temporarily removed from the composite. Prior to January 1, 2011, the composite minimum was \$100,000.

The standard wrap fee schedule in effect is 3.00% on total assets. Actual management fees charged may vary depending on applicable fee schedules and portfolio size, among other things. Additional information may be found in Part IIA 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. Performance results include the reinvestment of all income. Pure gross returns do not reflect the deduction of any expenses, including trading costs. Prior to December 31, 2005, net annual returns are calculated by deducting 1/4th of an assumed maximum annual wrap fee of 3% on a quarterly basis. Beginning January 1, 2006, net annual returns are calculated using actual fees incurred. If no fee data is provided by wrap sponsors, the maximum annual wrap fee of 3% is used to calculate net of fee performance. Beginning January 1, 2016, net annual returns are calculated by deducting 1/12th of an assumed maximum annual wrap fee of 3% on a monthly basis. Wrap fees include all charges for trading costs, portfolio management, custody and other administrative expenses.

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 of the composite is presented starting December 31, 2012 because prior to January 1, 2010, the composite return was calculated quarterly and 36 monthly returns are not available.

3-Yr Annualized Standard Deviation (%)			Total Firm Assets (\$ Millions)	Total Composite Assets (\$ Millions)	Wrap Accounts as % of Composite Assets	Accounts at Year End	Pure Gross Annual Return (%)*	Net Annual Return (%)	Russell 2000® Index Annual Return (%)	Internal Dispersion	
December 31	Composite	Benchmark	Year								
			2007	5,392	847	100%	39	3.25	1.71	-1.57	0.21
	15.37	20.48	2008	3,445	469	100%	49	-28.15	-29.36	-33.79	0.42
	11.96	16.68	2009	4,010	565	100%	54	31.80	29.72	27.17	0.71
	9.77	13.31	2010	4,729	659	100%	67	24.83	22.56	26.85	0.71
	11.15	14.16	2011	5,232	846	100%	70	9.64	7.75	-4.18	0.51
	12.19	15.99	2012	6,545	1,073	100%	71	13.75	11.80	16.35	0.31
			2013	7,841	1,336	100%	67	30.89	28.76	38.82	0.45
			2014	7,989	1,294	100%	70	7.31	5.57	4.89	0.27
			2015	8,095	1,023	100%	55	2.09	0.51	-4.41	0.38
			2016	9,989	1,222	100%	74	18.55	15.09	21.31	0.81

\*Pure gross returns are supplemental to net returns.

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

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