

Small Cap Quality Value Portfolio

Second Quarter 2017 | Managed Accounts

Portfolio Review

The Small Cap Quality Value portfolio outperformed the Russell 2000 Value Index during the second quarter. The outperformance was primarily driven by strong stock selection in the producer durables and consumer staples sectors. Performance was primarily hurt by negative stock selection in the consumer discretionary and technology sectors.

Positions that contributed most positively to performance during the quarter were Graco and HFF. Graco's sales in the quarter grew by double-digits, led by the contractor segment, which had its highest Q1 sales since 2013. Operating margins across all segments for the company also expanded. With incremental margins in all three segments greater than 40%, the company is benefiting from the better global economic picture. HFF's shares have been under pressure for the past year due to an industry slowdown in transaction volumes and concerns that the commercial real estate market has peaked. Despite this uncertainty, HFF continued to take share as evidenced by its 18% growth in revenues in the most recent quarter despite a decline in overall industry volumes. We do not have a particular near-term view about the real estate cycle, but we believe HFF would survive any downturn, will continue to gain market share, and that industry transaction volumes over time are likely to grow.

Positions that detracted the most from performance during the quarter were Cheesecake Factory and Cinemark Holdings. During the quarter, Cheesecake Factory pre-announced softer results, as it was seeing some sales variability in its markets, particularly in the Midwest and East Coast markets, where the weather may have been a factor. This variability has made forecasting labor for the company a bit more challenging, impacting the bottom line. The company is still outperforming the broader restaurant industry. We believe several new initiatives should support earnings per share growth in the medium term, including substantial share repurchase, international franchises, new concepts and investments in smaller restaurant brands. Cinemark reported solid first-quarter results. However, the general slate of films in 2017 is not quite as strong as the record performance in 2016. Cinemark is still delivering box-office growth in excess of the industry, and driving strong growth in concession per cap. While the company cannot control the film slate, it remains well-positioned relative to peers, and its international opportunity remains substantial. Investors may also be concerned by recent discussions surrounding shrinking "windows" that give exhibitors exclusive rights to show a film in a set period. We think a premium video on demand offering would be met with limited success and that studios are not likely to jeopardize the 50% of revenue it generates in the exhibition window.

Purchases and Sales

In the Small Cap Quality Value portfolio, there were no complete purchases or sales made during the quarter.

Outlook

Even in a mediocre GDP outlook environment, corporate earnings continue to look very solid over the next 6-12 months. As a result, stocks should continue to generate positive returns (although we may experience a correction along the way) for the foreseeable future. Despite the yield curve flattening materially, it is still not inverted and the Federal Reserve may feel less pressure to continue with another rate increase in the second half of the year. A meaningful increase in the price of crude oil, or major progress by the Trump Administration on tax reform and/or an infrastructure bill, could cause longer-term bond yields to rise over the next 6-12 months. This would give the Fed more wiggle room with short-term interest rates than what is currently available. The key takeaway for clients in this environment is to remember to focus on their real, longer-term objectives and to not get caught up in the day-to-day vagaries of the stock market.

Portfolio Highlights

Style: Small Cap
Sub-Style: Value
Index: Russell 2000® Value
Portfolio Inception: 1998
Portfolio Assets: \$2,647.2 M
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	31
Julie Kutsov Portfolio Manager + Senior Research Analyst	16
Craig Stone Portfolio Manager + Senior Research Analyst	28
Todd Bailey, CFA Senior Research Analyst	18
Jon Christensen, CFA Senior Research Analyst	22
Chris Wright, CFA Senior Research Analyst	7
Chris Benway, CFA Research Analyst	8
Julie Biel, CFA Research Analyst	9
Jordan Greenhouse Portfolio Specialist	20*

Top Five Holdings

As of June 30, 2017

Company	Percent of equity (%)
National Beverage	4.6
RE/MAX Holdings	4.6
Bank of Hawaii	4.3
SiteOne Landscape Supply	4.3
Thor Industries	4.2
Total	22.1

*Represents years of industry experience.

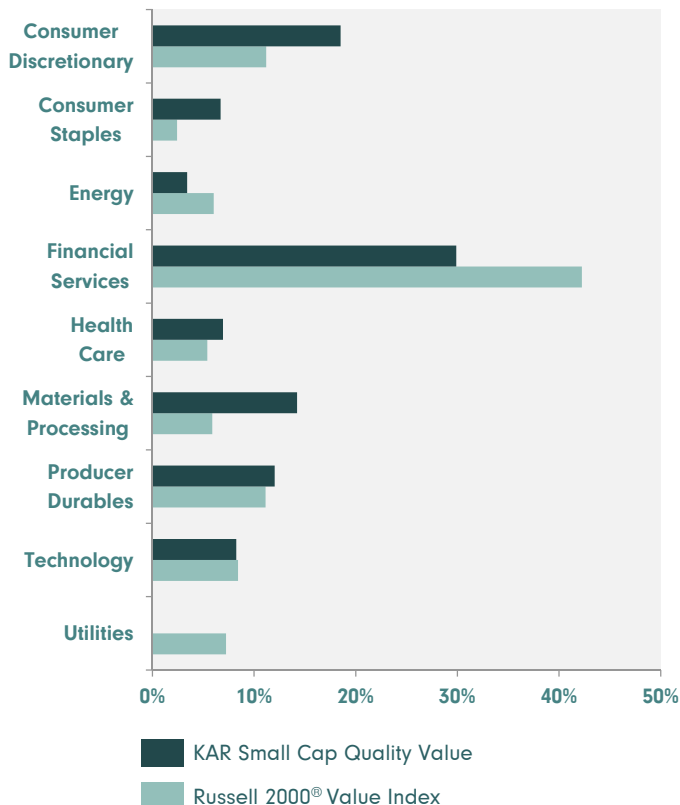
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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® Value 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"> Fully Invested 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 June 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 June 30, 2017

	KAR Small Cap Quality Value	Russell 2000® Value Index
Quality		
Return on Equity—Past 5 Years	22.5%	7.6%
Total Debt/EBITDA	1.9 x	6.6 x
Earnings Variance—Past 10 Years	23.3%	83.6%
S&P Stock Ranking (A+, A, A-, B+)	69.6%	24.5%
Growth		
Earnings Per Share Growth—Past 5 Years	7.1%	6.6%
Earnings Per Share Growth—Past 10 Years	10.9%	4.6%
Dividend Per Share Growth—Past 5 Years	13.8%	6.4%
Dividend Per Share Growth—Past 10 Years	8.4%	2.6%
Capital Generation—{ROE x (1-Payout)}	12.2%	5.4%
Value		
P/E Ratio—Trailing 12 Months	29.5 x	28.2 x
Dividend Yield	1.5%	1.9%
Free Cash Flow Yield†	4.3%	2.5%
Market Characteristics		
\$ Weighted Average Market Cap—4 Qtr. Avg.	\$3.2 B	\$1.9 B
Largest Market Cap—4 Qtr. Avg.	\$7.3 B	\$8.5 B
Annualized Standard Deviation—Since Inception*	18.2%	20.0%

*Actual inception date is June 1, 1998. July 1, 1998 is used for calculation purposes of quarterly information.

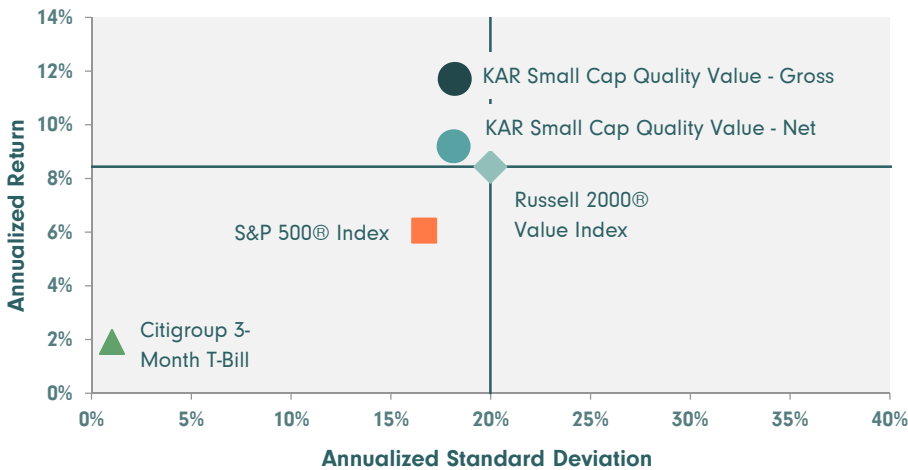
†Free cash flow data is as of March 31, 2017. Prices are as of June 30, 2017. Excludes financials. This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. 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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Strong Risk-Adjusted Returns

Inception* to June 30, 2017



Historical Returns

	KAR Small Cap Quality Value (gross)	KAR Small Cap Quality Value (net) [§]	Russell 2000® Value Index
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Annualized Returns (%)[†]

As of June 30, 2017

2 nd Quarter	2.15	1.39	0.67
Year to Date	7.20	5.62	0.54
One Year	21.74	18.20	24.86
Three Years	12.18	9.70	7.02
Five Years	15.29	13.02	13.39
Seven Years	15.77	13.55	13.50
Ten Years	9.64	7.62	5.92
Inception [†]	11.72	9.23	8.37

Annual Returns (%)

2016	26.17	22.50	31.74
2015	(0.27)	(1.80)	(7.47)
2014	2.51	0.85	4.22
2013	40.00	37.83	34.52
2012	10.01	8.32	18.05
2011	6.73	4.58	(5.50)
2010	24.75	22.81	24.50
2009	27.82	25.92	20.58
2008	(28.62)	(29.99)	(28.92)
2007	1.93	0.27	(9.78)
2006	23.72	21.87	23.48
2005	8.53	5.31	4.71
2004	27.59	23.80	22.25
2003	22.12	18.59	46.03
2002	0.48	(2.52)	(11.43)
2001	19.42	16.06	14.02
2000	24.92	21.28	22.83
1999	(7.69)	(10.39)	(1.49)
1998 [¶]	9.61	7.99	(10.93)

*Actual inception date is June 1, 1998. July 1, 1998 is used for calculation purposes of quarterly information.

[†]June 1, 1998

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

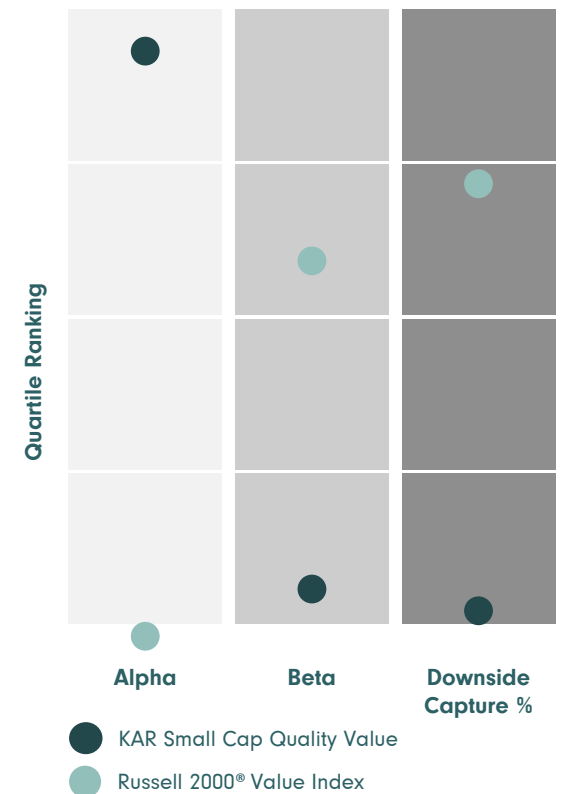
[§]Net of all fees and expenses. Assumes a 3% annual fee.

[¶]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.

Peer Comparison Chart

Inception* to June 30, 2017



Performance Statistics

Inception* to June 30, 2017

	KAR Small Cap Quality Value	Russell 2000® Value Index
Annualized Return	11.71	8.44
Annualized Standard Deviation	18.19	19.98
Alpha	4.23	0.00
Beta	0.82	1.00
Sharpe Ratio	0.54	0.33
R-Squared	80.27	100.00

IMPORTANT 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-sized 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.

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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 Quality Value Wrap 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 fully discretionary Small Cap Quality Value Wrap Portfolios. Small Cap Quality Value Wrap 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 the independent verifiers. The composite was created in January 2002. 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 exceeded 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 after 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 measures the variability of the composite (using gross returns) and the benchmark for the 36-month period 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 (%)

	December 31	Composite	Benchmark
2012		16.04	20.17
2013		14.24	16.05
2014		12.88	12.98
2015		13.64	13.65
2016		14.09	15.72

Year	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® Value Index Annual Return (%)	Internal Dispersion
2007	5,392	765	100%	28	1.93	0.27	(9.78)	0.33
2008	3,445	441	100%	33	(28.62)	(29.99)	(28.92)	0.73
2009	4,010	531	100%	34	27.82	25.92	20.58	0.55
2010	4,729	561	100%	38	24.75	22.81	24.50	0.75
2011	5,232	478	100%	36	6.73	4.58	(5.50)	0.33
2012	6,545	622	100%	31	10.01	8.32	18.05	0.43
2013	7,841	637	100%	27	40.00	37.83	34.52	0.42
2014	7,989	648	100%	26	2.51	0.85	4.22	0.43
2015	8,095	624	100%	24	(0.27)	(1.80)	(7.47)	0.32
2016	9,989	641	100%	26	26.17	22.50	31.74	0.55

*Pure gross returns are supplemental to net returns.

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