

## Small Cap Quality Value Portfolio

### Second Quarter 2018 | Managed Accounts

#### Portfolio Review

The Small Cap Quality Value portfolio underperformed the Russell 2000 Value Index during the second quarter. Performance was weighed down largely by weak stock selection in the financial services, health care and consumer discretionary sectors. Losses were partially offset by positive stock selection in consumer staples and technology.

Positions that contributed most positively to performance during the quarter were MGM Growth Properties and National Beverage. MGM Growth Properties posted recent quarterly results that were in line with our expectation for steady, although modest, revenue and profit growth. The as-expected results helped the stock recover from a selloff in the first quarter when real estate investment trusts broadly traded down on the prospects of rising interest rates. We see a well-covered dividend payout and opportunities for the company to expand its property portfolio at attractive prices, which also point to potential increases in dividends over time. For these reasons, we remain shareholders. While National Beverage's carbonated soft-drink brands have been struggling like the rest of the industry, the declines seen in that segment have been more than offset by growth in the company's sparkling-water portfolio, particularly the LaCroix brand. In the most recent quarter, National Beverage reported double-digit growths in revenue and earnings per share. These strong results helped the stock price recover from the decline in the first quarter, which was due to valuation concerns rather than 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.

Positions that detracted the most from performance during the quarter were HFF and Anika Therapeutics. HFF reported a surprise decline in revenue despite a recent improvement in industry activity. This, coupled with a stock that was up about 77% over the previous 12 months, led to a sharp selloff. Quarterly results can be lumpy due to the timing of when deals close, so we caution against drawing too many conclusions from a single quarter's results. Ultimately, long-term revenue and profit growth at HFF will come from continuing to train, hire and retain high-quality transaction professionals, and will be measured by headcount that continues to move in the right direction. As such, we remain shareholders. Anika Therapeutics saw its shares falter in the quarter despite solid sales growth from its MONOVISC and ORTHOVISC products that continue to gain market share. Two recent issues have contributed to the weakness: One was related to a voluntary product recall, which should be resolved by the end of the year, and the other was the notification from the FDA that the company's CINGAL product did not show strong results in phase-3 trials. This later issue could impact longer-term growth opportunities.

#### Purchases and Sales

We completely closed our position in Manhattan Associates during the quarter. There were no new buys.

Despite Manhattan Associates' status as a leading provider of vertical software, its attractive business model and potential to be an essential element of a customer's supply-chain ecosystem, we have observed a continued deterioration in the retail operating environment over the past several months. An aggressive price competition among software vendors has intensified as retail customers increasingly choose lower price over superior technology, which has negatively affected Manhattan Associates' near- and medium-term outlook. With these considerations in mind, and with the shares' valuation fair, we exited our small position in the company.

#### Outlook

Uncertainty continues to cast a shadow in the markets amid growing tension around global trade tariffs and what seems to be stalled growth in international markets. Still, business and economic activity in the U.S. appears to be solid, with various industries continuing in expansion mode and second-quarter GDP growth estimated to be strong. As always, we remain focused on investing in high-quality companies with a sustainable competitive edge as we believe this is the best long-term protection we can provide in this period of heightened uncertainty.

#### Portfolio Highlights

**Style:** Small Cap  
**Sub-Style:** Value  
**Index:** Russell 2000® Value  
**Portfolio Inception:** 1998  
**Portfolio Assets:** \$3,250.8 M  
**Portfolio Turnover:** 25%–35%

#### Investment Management Team

Name	Years of research experience
<b>Douglas S. Foreman, CFA</b> Chief Investment Officer	32
<b>Julie Kutasov</b> Portfolio Manager + Senior Research Analyst	17
<b>Craig Stone</b> Portfolio Manager + Senior Research Analyst	29
<b>Todd Beiley, CFA</b> Senior Research Analyst	19
<b>Jon Christensen, CFA</b> Senior Research Analyst	23
<b>Chris Wright, CFA</b> Senior Research Analyst	8
<b>Julie Biel, CFA</b> Research Analyst	10
<b>Sean Dixon*</b> Research Analyst	9
<b>Adam Xiao*</b> Research Analyst	3

\*Sean Dixon's start date is 7/23/18 and Adam Xiao's start date is 7/9/18.

#### Top Five Holdings

As of June 30, 2018

Company	Percent of equity (%)
SiteOne Landscape Supply	5.3
Cheesecake Factory	5.2
MGM Growth Properties	5.2
National Beverage	4.6
Core Laboratories	4.5
<b>Total</b>	<b>24.9</b>

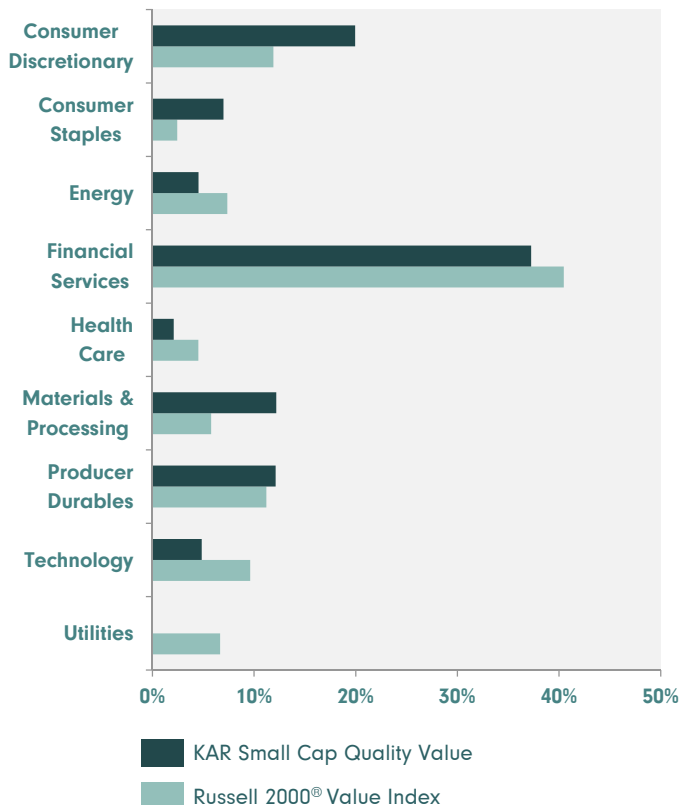
*This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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 June 30, 2018



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, 2018

	KAR Small Cap Quality Value	Russell 2000® Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	21.4%	7.8%
Total Debt/EBITDA	1.9 x	6.5 x
Earnings Variability—Past 10 Years	28.5%	81.4%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	7.7%	5.9%
Earnings Per Share Growth—Past 10 Years	12.7%	6.2%
Dividend Per Share Growth—Past 5 Years	6.9%	6.9%
Dividend Per Share Growth—Past 10 Years	11.7%	4.1%
Capital Generation—{ROE x (1-Payout)}	11.6%	5.4%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	23.4 x	24.4 x
Dividend Yield	1.8%	2.0%
Free Cash Flow Yield <sup>†</sup>	3.9%	2.3%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$3.1 B	\$1.9 B
Largest Market Cap—3-Year Avg.	\$7.8 B	\$7.1 B
Annualized Standard Deviation—Since Inception*	17.8%	19.6%

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

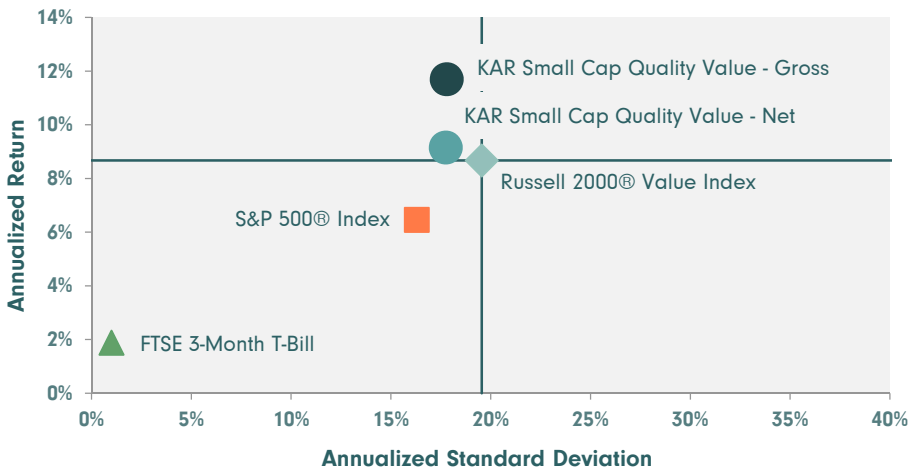
<sup>†</sup>Free cash flow data is as of March 31, 2018. Prices are as of June 30, 2018. Excludes financials. This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed 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, 2018



## Historical Returns

	KAR Small Cap Quality Value (gross)	KAR Small Cap Quality Value (net) <sup>§</sup>	Russell 2000 <sup>®</sup> Value Index
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### Annualized Returns (%)<sup>†</sup>

As of June 30, 2018

2 <sup>nd</sup> Quarter	1.78	1.03	8.30
Year to Date	(0.17)	(1.66)	5.44
One Year	11.57	8.35	13.10
Three Years	13.92	10.89	11.22
Five Years	14.10	11.56	11.18
Seven Years	12.21	9.88	11.10
Ten Years	13.01	10.81	9.88
Inception*	11.71	9.18	8.60

### Annual Returns (%)

2017	19.67	16.27	7.84
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 <sup>¶</sup>	9.61	9.07	(10.93)

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

<sup>†</sup>June 1, 1998

<sup>‡</sup>All periods less than one year are total returns and are not annualized. Returns are preliminary.

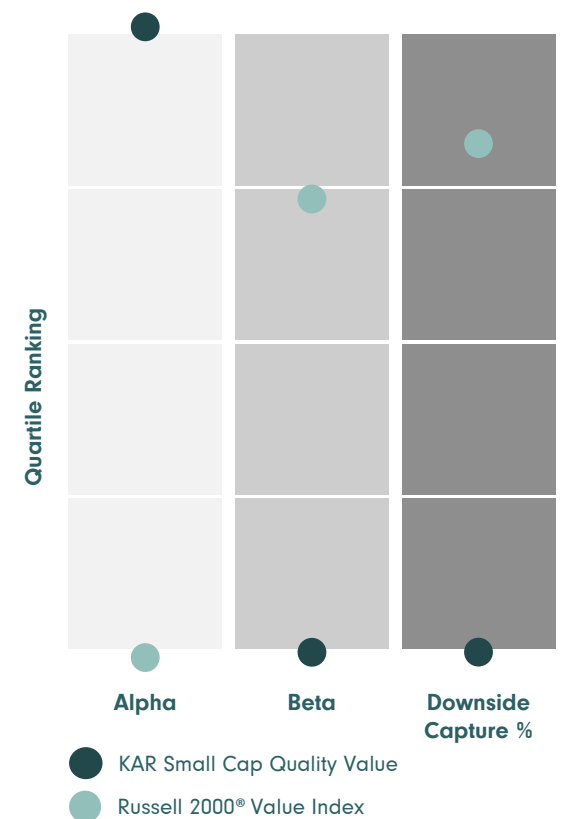
<sup>§</sup>Net of all fees and expenses. Assumes a 3% annual fee.

<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.

## Peer Comparison Chart

Inception\* to June 30, 2018



## Performance Statistics

Inception\* to June 30, 2018

	KAR Small Cap Quality Value	Russell 2000 <sup>®</sup> Value Index
Annualized Return	11.71	8.67
Annualized Standard Deviation	17.79	19.55
Alpha	4.07	0.00
Beta	0.81	1.00
Sharpe Ratio	0.56	0.35
R-Squared	79.73	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, 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 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 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	651	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.