

## Small Cap Quality Value Portfolio

### Fourth Quarter 2017 | Managed Accounts

#### Portfolio Review

The Small Cap Quality Value portfolio outperformed the Russell 2000 Value Index during the fourth quarter. The outperformance was largely driven by strong stock selection in the consumer discretionary and financial services sectors. Performance was hurt by negative stock selection in the consumer staples and health care sectors.

Positions that contributed most positively to performance during the quarter were SiteOne Landscape Supply and Thor Industries.

SiteOne continues to consolidate the industry and has seen accelerating organic daily sales growth. With the increased scale and with initiatives like improving supply chain, SiteOne has been able to expand gross margins, which over time should translate into improving operating margin. The company has a 10% share of the entire wholesale landscape market and, in the long run, should have plenty of runway for growth and further margin leverage.

Thor saw its stock increase over the quarter after it reported strong new unit sales and additional progress in improving the margins of recently acquired Jayco. Thor, along with the overall industry, continues to benefit from younger buyers entering the RV market with purchases of entry-level towable units. These new buyers are not only beneficial to current sales but also represent future sales for the industry as these customers will eventually upgrade their vehicles. As such, we expect Thor's revenue, margin and return on equity to continue to increase.

Positions that detracted the most from performance during the quarter were National Beverage and RE/MAX Holdings.

While National Beverage has seen weak performance in its carbonated soft drink brands like the rest of the industry, these declines have been more than offset by growth in its sparkling water portfolio, particularly the LaCroix brand, whose strong sales have helped drive share price for most of the year. While National Beverage's latest financial results showed growth in revenue and earnings per share, the stock price declined during the quarter due to valuation concerns and not 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, so we remain shareholders.

RE/MAX saw its shares fall during the quarter as an internal investigation resulted in a delayed 3Q earnings report. A group of independent directors is looking into an undisclosed loan from the founder to the co-CEO and other potential employment practice violations. Despite this investigation, RE/MAX confirmed business fundamentals remain solid, and we expect this to continue going forward. We remain confident in RE/MAX's capital-light business model and its ability to generate superior returns over the long term.

#### Purchases and Sales

This quarter we made no new purchases in the Small Cap Quality Value portfolio. We completely closed our position in Monotype Imaging Holdings.

Monotype provides communications design technology and controls some of the world's most popular fonts. Though the company has finally seen some stabilization in its core font business, the company once again lowered its guidance for its acquired business Olapic. The lower guidance for Olapic was attributed to the revenue recognition similar to the SaaS recognition. But the fact that the company just realized this after almost a year of Olapic ownership speaks to the fast-changing nature of the industry that Olapic competes in, and thus gives us less conviction in the long-term operating model of this new business segment. The stock reacted positively to the stabilization of the core business, and we used this strength to sell the stock.

#### Outlook

The outlook for 2018 is favorable overall, but to expect another 2017 would be unreasonable. More volatility and drawdowns are anticipated in 2018 as markets return to more normal conditions. 2018 should continue to provide investors with mid-to-high single-digit equity returns but most likely not without a bumpy ride along the way. Investors should review their asset allocation and make sure they can "sleep at night" with their current equity exposure. We will continue to own high-quality businesses that can shine in good and bad times and have competitive protections.

#### Portfolio Highlights

**Style:** Small Cap  
**Sub-Style:** Value  
**Index:** Russell 2000® Value  
**Portfolio Inception:** 1998  
**Portfolio Assets:** \$3,071.8 M  
**Portfolio Turnover:** 25%–35%

#### Investment Management Team

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

#### Top Five Holdings

As of December 31, 2017

Company	Percent of equity (%)
SiteOne Landscape Supply	5.6
Thor Industries	5.3
Cheesecake Factory	4.6
Scotts Miracle-Gro	4.4
RBC Bearings	4.3
<b>Total</b>	<b>24.3</b>

\*Represents years of industry experience.

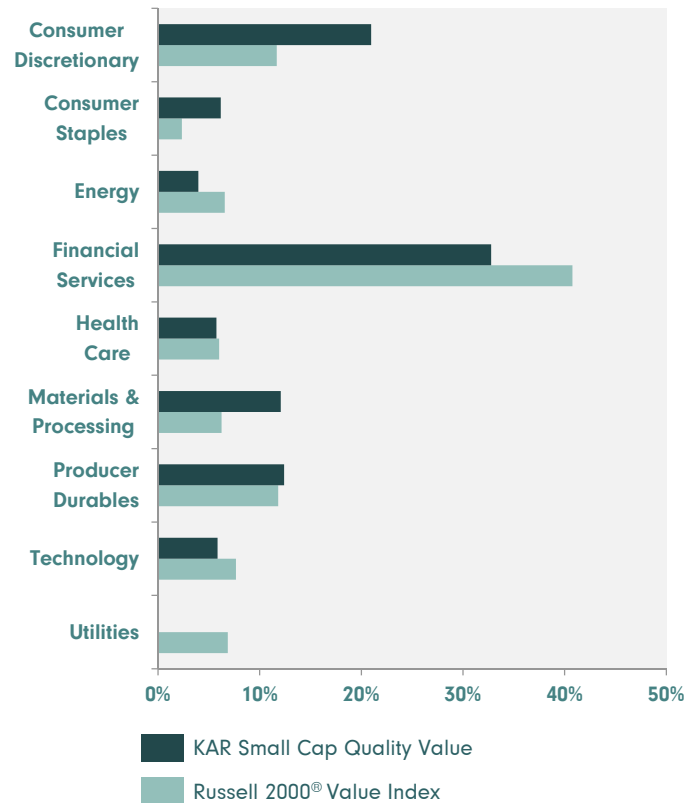
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation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

<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> </ul> <b>Portfolio Turnover</b> <ul style="list-style-type: none"> <li>• 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 December 31, 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 December 31, 2017

	KAR Small Cap Quality Value	Russell 2000® Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	22.8%	7.4%
Total Debt/EBITDA	1.7 x	8.4 x
Earnings Variance—Past 10 Years	22.1%	85.0%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	8.2%	5.0%
Earnings Per Share Growth—Past 10 Years	11.0%	5.6%
Dividend Per Share Growth—Past 5 Years	11.2%	7.3%
Dividend Per Share Growth—Past 10 Years	11.7%	3.0%
Capital Generation—{ROE x (1-Payout)}	12.1%	5.2%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	27.2 x	30.0 x
Dividend Yield	1.6%	1.8%
Free Cash Flow Yield†	3.8%	1.7%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Avg.	\$3.0 B	\$1.8 B
Largest Market Cap—3-Year Avg.	\$7.2 B	\$6.5 B
Annualized Standard Deviation—Since Inception*	18.0%	19.7%

\*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 September 30, 2017. Prices are as of December 31, 2017. Excludes financials.

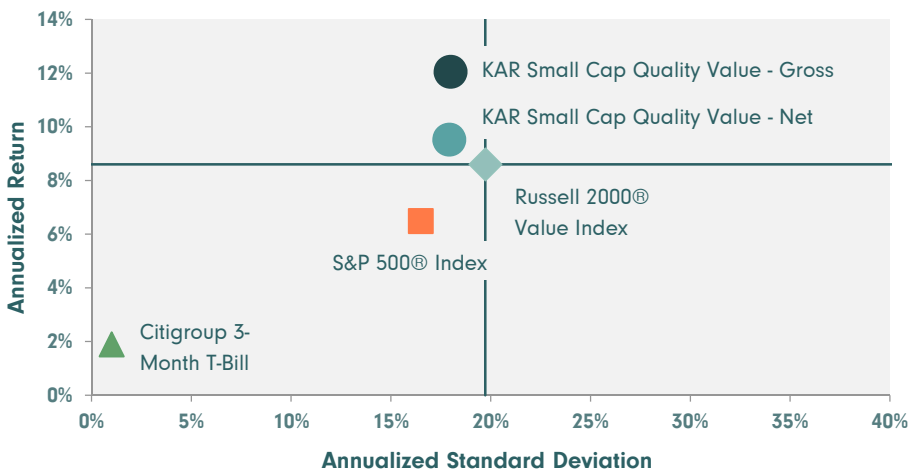
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. 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 December 31, 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 December 31, 2017

4 <sup>th</sup> Quarter	4.77	4.00	2.05
One Year	20.23	16.73	7.84
Three Years	14.80	11.98	9.55
Five Years	16.77	14.31	13.01
Seven Years	14.30	12.00	10.84
Ten Years	11.24	9.12	8.17
Inception*	12.06	9.54	8.53

### Annual Returns (%)

2017	20.23	16.73	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¶	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.

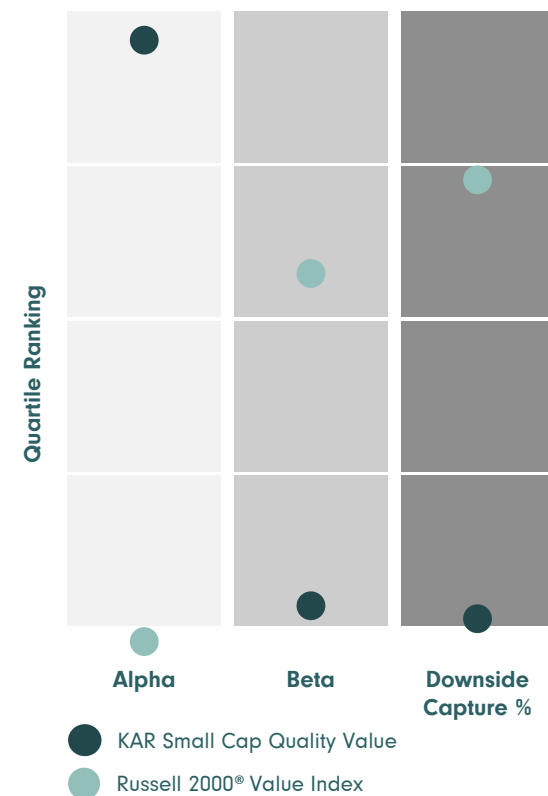
§Net of all fees and expenses. Assumes a 3% annual fee.

¶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 December 31, 2017



## Performance Statistics

Inception\* to December 31, 2017

	KAR Small Cap Quality Value	Russell 2000® Value Index
Annualized Return	12.05	8.60
Annualized Standard Deviation	17.98	19.73
Alpha	4.43	0.00
Beta	0.82	1.00
Sharpe Ratio	0.57	0.34
R-Squared	80.22	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.