

Small Cap Quality Value Portfolio

First Quarter 2018 | Managed Accounts

Portfolio Review

The Small Cap Quality Value portfolio slightly outperformed the Russell 2000 Value Index during the first quarter. Strong stock selection in the financial services and technology sectors led the outperformance. Weak stock selection in the health care and consumer discretionary sectors detracted from performance.

Positions that contributed most positively to performance during the quarter were RE/MAX Holdings and Cinemark Holdings.

- RE/MAX's stock price recovered in the quarter after the company completed its delayed filings stemming from an investigation into the actions of the co-CEOs, primarily having to do with a personal loan of \$2.4 million Dave Liniger made to Adam Contos. Following an exhaustive investigation, a special committee determined that no corporate funds were used but that the below-interest rate loan had violated company policies. There was no impact to historical financials. Meanwhile, agent-count growth continued to progress nicely, and the repurchase of independent regions added to results.
- Cinemark reported strong year-end results that outpaced the broader box office. Cinemark's upgraded seating and concessions appear to be helping the company drive higher admissions even with an uneven film slate. The company has also launched its new Movie Club offering to its most loyal customers, which was met with solid initial interest. We expect the company to benefit from the strong film slate this first quarter.

Positions that detracted the most from performance during the quarter were Thor Industries and Scotts Miracle-Gro Company.

- Thor shares had been a very strong outperformer for much of last year as the company has been a beneficiary of robust demand for entry-level towable units from first-time buyers. However, the stock has pulled back recently due to concerns of a top in the RV cycle and the potential for an upcoming inventory glut. While these are valid concerns for a cyclical industry, there isn't much tangible evidence to support the fear that has crept into investors' minds. More importantly, these concerns are cyclical in nature and have nothing to do with the underlying competitive advantages in Thor's business, which have likely been enhanced following the added scale from its recent Jayco acquisition. As a result, we remain shareholders.
- Scotts Miracle-Gro in January released its quarterly earnings result that disappointed investors who were looking for continued growth of the company's Hawthorne division, which caters to the cannabis industry. The company noted that the recent transition in California from a purely medical-marijuana state to one that also allows for recreational use has hit a pothole. A recent Wall Street Journal article cited that less than 3% of the state's marijuana farmers had been issued licenses due to a complex and ill-conceived permitting process. Demand is now outstripping legal supply and sending the previously legal but unregulated market underground, bolstering the black market, which is the exact opposite intention of the proposed mandate in legalization. While this may take some time to sort out, we believe that it will eventually benefit the Hawthorne unit. In the meantime, the core brands of the company—Miracle-Gro, Ortho, Roundup and Scotts—continue to perform.

Purchases and Sales

We purchased shares of Brooks Automation and Houlihan Lokey (HLI), and completely closed our position in Cognex and Patterson Companies.

Brooks Automation engages in the provision of automation and cryogenic solutions for multiple markets, primarily in semiconductor capital equipment and life science biological sample management and storage. In both segments, the company has leveraged its market-leading positions, supplemented with acquisitions to drive growth.

HLI is a global investment bank that provides financial advisory, restructuring and capital-raising services to clients around the world. Over its 30-year history the company has established itself as the preeminent middle-market investment bank and one of the top restructuring advisors in the world. HLI also has built a firm culture and brand that differentiates it in the marketplace, leading to high employee retention.

We sold our entire position in Cognex due to high valuation and its large market capitalization. Over the past couple of years, the company has enjoyed strong double-digit revenue and earnings growth as its machine-vision products have benefited from increased focus on industrial automation. While we still believe that there is still good growth opportunity ahead for Cognex, the current market cap of \$12 billion is simply too large for the portfolio.

We sold Patterson after yet another quarter of disappointment. The company brought in a new CEO and is now seeking a new CFO, as the current finance chief is transitioning out her role. This is against the backdrop of Amazon's efforts to get more into health care. The structure of Patterson's business and perhaps of this industry is being questioned, and we chose to exit our position, despite historically low relative valuations.

Outlook

We want to underscore that market corrections, even as they are unpredictable, sharp and painful, are necessary to remove excessive speculation in the stock market and to shake out weak holders. We still believe that businesses will be growing their earnings over the next couple of years and that the stock market will ultimately reward this growth with positive returns in the mid- to high-single-digit range. The shape of the yield curve is certainly worth monitoring over the next year or two, and we would like to see it steepen. As always, we will stay focused on investing in high-quality businesses with a sustainable competitive edge.

Portfolio Highlights

Style: Small Cap
Sub-Style: Value
Index: Russell 2000® Value
Portfolio Inception: 1998
Portfolio Assets: \$3,087.6 M
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	32
Julie Kutasov Portfolio Manager + Senior Research Analyst	17
Craig Stone Portfolio Manager + Senior Research Analyst	29
Todd Bailey, CFA Senior Research Analyst	19
Jon Christensen, CFA Senior Research Analyst	23
Chris Wright, CFA Senior Research Analyst	8
Julie Biel, CFA Research Analyst	10
Jordan Greenhouse Portfolio Specialist	21*

Top Five Holdings

As of March 31, 2018

Company	Percent of equity (%)
SiteOne Landscape Supply	5.7
Cheesecake Factory	4.7
Scotts Miracle-Gro	4.5
RE/MAX Holdings	4.4
RBC Bearings	4.3
Total	23.5

*Represents years of industry experience.

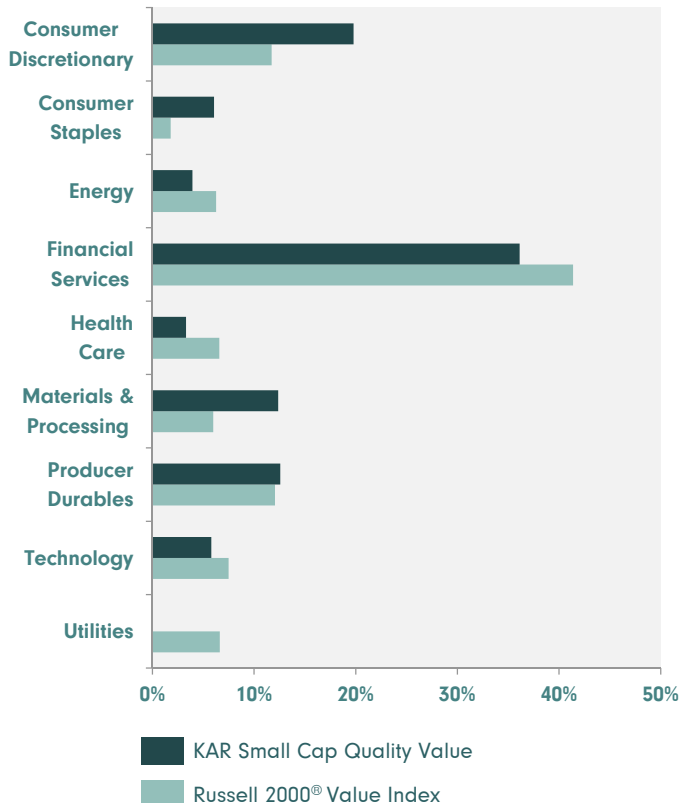
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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 	20–35 Stocks Position Weights <ul style="list-style-type: none"> Typically 3%-4% Maximum weight 10% (at market) Sector Tolerances <ul style="list-style-type: none"> Typically +/- 10% of the Russell 2000® Value Index, utilizing Russell sector classifications Holding Period <ul style="list-style-type: none"> Typically 3-to-5 years, but is often longer Portfolio turnover is typically 25% to 35% Cash Levels <ul style="list-style-type: none"> Typically will not exceed 10% once a portfolio is fully invested 	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 March 31, 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 March 31, 2018

	KAR Small Cap Quality Value	Russell 2000® Value Index
Quality		
Return on Equity—Past 5 Years	21.5%	7.5%
Total Debt/EBITDA	1.6 x	7.7 x
Earnings Variance—Past 10 Years	28.2%	84.9%
Growth		
Earnings Per Share Growth—Past 5 Years	7.9%	6.0%
Earnings Per Share Growth—Past 10 Years	13.0%	5.5%
Dividend Per Share Growth—Past 5 Years	7.1%	6.5%
Dividend Per Share Growth—Past 10 Years	10.5%	3.3%
Capital Generation—{ROE x (1-Payout)}	12.7%	5.3%
Value		
P/E Ratio—Trailing 12 Months	24.3 x	27.7 x
Dividend Yield	1.7%	1.9%
Free Cash Flow Yield†	3.8%	1.4%
Market Characteristics		
\$ Weighted Average Market Cap—3-Year Avg.	\$3.1 B	\$1.8 B
Largest Market Cap—3-Year Avg.	\$7.5 B	\$6.7 B
Annualized Standard Deviation—Since Inception*	17.9%	19.6%

*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 December 31, 2017. Prices are as of March 31, 2018. Excludes financials.

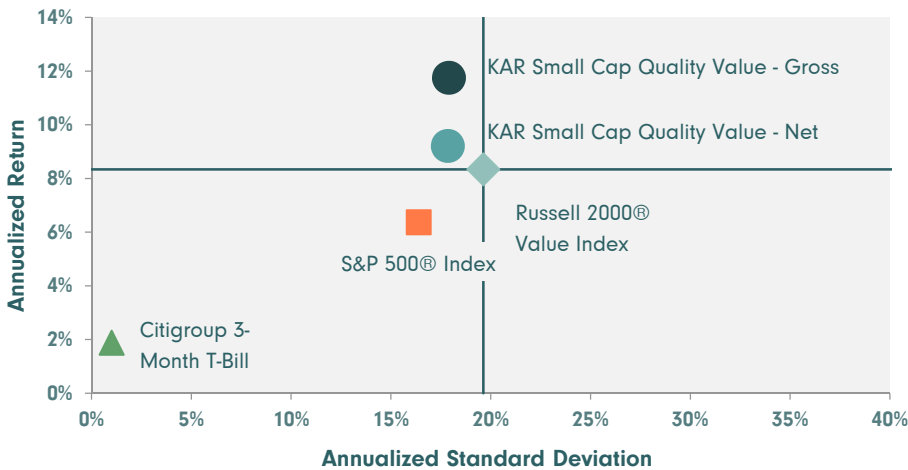
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. 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 March 31, 2018



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 March 31, 2018

1 st Quarter	(1.92)	(2.66)	(2.64)
One Year	11.92	8.64	5.13
Three Years	12.75	9.85	7.87
Five Years	13.81	11.33	9.96
Seven Years	12.43	10.12	9.42
Ten Years	12.45	10.29	8.61
Inception [†]	11.76	9.25	8.28

Annual Returns (%)

2017	19.67	16.18	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	9.07	(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.

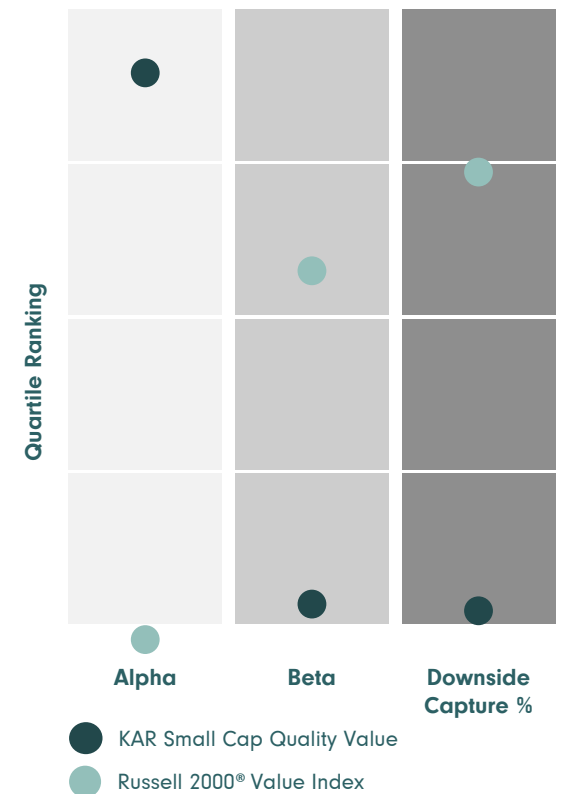
[§]Net of all fees and expenses. Assumes a 3% annual fee.

^{††}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 March 31, 2018



Performance Statistics

Inception* to March 31, 2018

	KAR Small Cap Quality Value	Russell 2000® Value Index
Annualized Return	11.75	8.34
Annualized Standard Deviation	17.90	19.63
Alpha	4.35	0.00
Beta	0.82	1.00
Sharpe Ratio	0.55	0.33
R-Squared	80.32	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.