

Small-Mid Cap Core Portfolio

First Quarter 2018 | Managed Accounts

Portfolio Review

The Small-Mid Cap Core portfolio outperformed the Russell 2500 Index during the first quarter. Strong stock selection in financials and consumer discretionary helped boost returns. Weak stock selection in producer durables and technology detracted from performance.

Names that contributed the most to performance were Aspen Technology and MSCI. Aspen reported solid results, showing good traction with its newest Asset Performance Management (APM) suite of products. The company continues to generate very strong profitability and cash flow that it then uses to repurchase stock. Additionally, the company will be a major beneficiary of the tax cuts, as it was paying a 35% tax rate, which should decline to 21% in its next fiscal year. MSCI continued to benefit from its leading positioning in the rapidly expanding exchange-traded fund (ETF) segment, as well as an improved growth and profitability profile. Importantly, MSCI remains a strong generator of free cash flow, returning excess capital to shareholders in the form of regular cash dividends and share repurchases.

Positions that detracted the most from performance were Manhattan Associates and Snap-on. Manhattan continues to be challenged by a very weak retail environment. Manhattan's customers are clearly balking at making large and expensive investments in their supply chains. The company is also transitioning to a cloud model, which should help lower initial costs for customers but could also negatively impact Manhattan's financial statements as revenues are recognized ratably. Following our call with the CFO, we believe the company still has the strongest offering in the market but recognize that customers under duress may not be willing to pay for that premium offering. We will continue to monitor this position closely. Snap-on, after being one of the top contributors last quarter, saw a reversal as the proposed steel tariffs and its impact on the company weighed on the stock price.

Purchases and Sales

During the first quarter, we purchased Scotts Miracle-Gro and AMN Healthcare Services. There were no complete sales.

Scotts Miracle-Gro manufactures and sells lawn and garden products across four established brands that enable consistent price increases. The company benefits from scale advantages in terms of procurement, fixed-cost leverage and an ability to effectively service massive customers, which include Home Depot, Lowe's and Wal-Mart. The company's financials are driven by a returns-focused strategy and a capital-light model.

AMN Healthcare is an established leader in the \$16 billion health care staffing services market and provides clients with access to a vast network of nurses and other professionals. Factors driving demand for the market include the aging population, a shortage of clinicians and physicians, increased access to health care services, and emergence of new clinical roles. Despite its leading position, AMN holds just an 11% share of the fragmented market. AMN has seen consistent growth in its top and bottom lines, and operates with a healthy balance sheet. As industry drivers continue to accelerate demand for labor, we believe the company's evolution from a traditional staffing business to a healthcare workforce solutions leader should drive long-term value creation for their clients and shareholders.

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-Mid Cap
Sub-Style: Core
Index: Russell 2500™
Portfolio Inception: 1992
Portfolio Assets: \$2,151.6 M
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	32
Jon Christensen, CFA Portfolio Manager + Senior Research Analyst	23
Julie Kutasov Portfolio Manager + Senior Research Analyst	17
Craig Stone Portfolio Manager + Senior Research Analyst	29
Todd Bailey, CFA Senior Research Analyst	19
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 (%)
Aspen Technology	4.8
RBC Bearings	4.7
CDW	4.4
Nordson	4.4
Signature Bank	4.3
Total	22.5

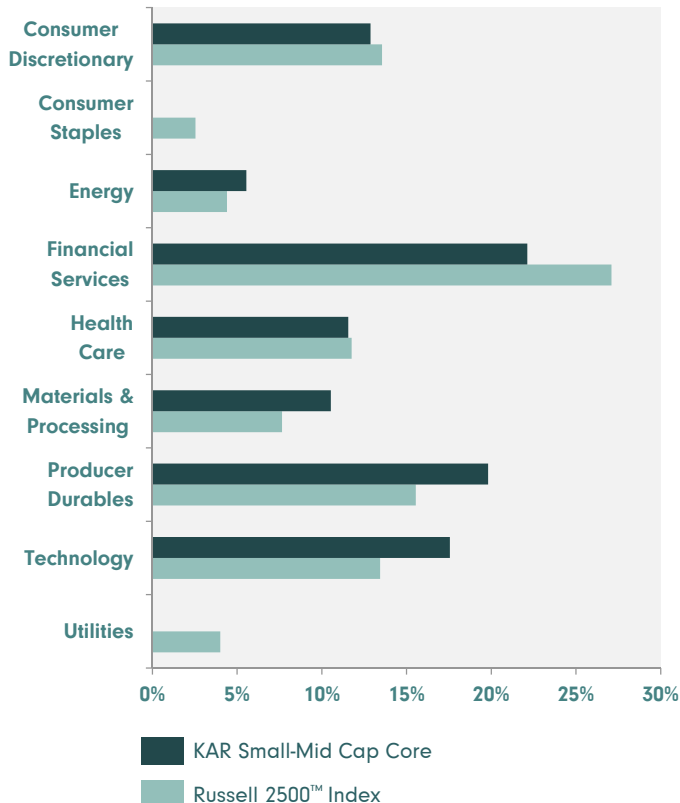
*Represents years of industry experience.
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should 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 	25–35 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 2500™ 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-Mid Cap Core	Russell 2500™ Index
Quality		
Return on Equity—Past 5 Years	22.0%	12.3%
Total Debt/EBITDA	2.2 x	4.8 x
Earnings Variability—Past 10 Years	40.0%	70.9%
Growth		
Earnings Per Share Growth—Past 5 Years	13.4%	9.8%
Earnings Per Share Growth—Past 10 Years	15.4%	8.8%
Capital Generation—{ROE x (1-Payout)}	17.4%	9.1%
Value		
P/E Ratio—Trailing 12 Months	25.5 x	30.2 x
Dividend Yield	0.7%	1.5%
Free Cash Flow Yield†	3.8%	2.5%
Market Characteristics		
\$ Weighted Average Market Cap—3-Year Avg.	\$7.2 B	\$4.4 B
Largest Market Cap—3-Year Avg.	\$19.4 B	\$14.5 B
Annualized Standard Deviation—Since Inception*	14.7%	18.4%

*April 1, 1992

†Free cash flow data is as of December 31, 2017. Prices are as of March 31, 2018. Excludes financials.

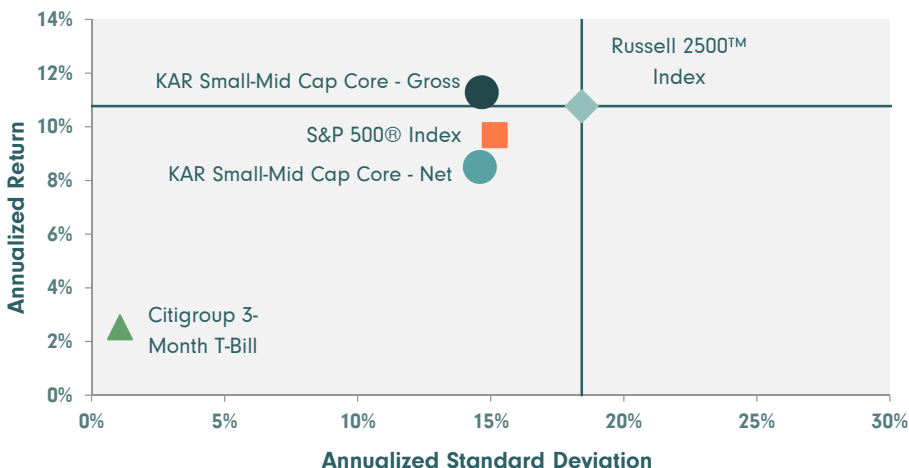
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. 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-Mid Cap Core (gross)	KAR Small-Mid Cap Core (net) [‡]	Russell 2500™ Index
Annualized Returns (%)[†]			
As of March 31, 2018			
1 st Quarter	1.26	0.50	(0.24)
One Year	13.60	10.27	12.31
Three Years	11.77	8.88	8.15
Five Years	14.13	11.61	11.55
Seven Years	12.68	10.34	10.88
Ten Years	12.62	10.31	10.28
Inception*	11.29	8.50	10.77

Annual Returns (%)	KAR Small-Mid Cap Core (gross)	KAR Small-Mid Cap Core (net)	Russell 2500™ Index
2017	19.77	16.28	16.81
2016	17.03	13.61	17.59
2015	5.76	4.10	(2.90)
2014	9.25	7.37	7.07
2013	31.04	29.07	36.80
2012	9.25	7.55	17.88
2011	8.43	6.02	(2.51)
2010	20.23	17.70	26.71
2009	31.12	28.86	34.39
2008	(29.90)	(31.33)	(36.79)
2007	0.26	(1.37)	1.38
2006	14.04	11.75	16.17
2005	3.24	0.14	8.11
2004	13.69	10.26	18.29
2003	25.54	21.91	45.51
2002	(17.31)	(19.84)	(17.80)
2001	4.57	1.53	1.22
2000	23.47	19.85	4.27
1999	7.02	3.93	24.14
1998	20.98	17.42	0.38
1997	21.00	17.45	24.36
1996	26.98	23.22	19.03
1995	18.57	15.07	31.70
1994	2.75	(0.26)	(1.05)
1993	20.00	16.54	16.55
1992 [§]	9.65	7.25	11.36

*April 1, 1992

[†]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 nine months ended December 31, 1992.

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-Mid Cap Core Universe includes all managers categorized in the small-mid cap core 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

Ten Years Ending March 31, 2018



Performance Statistics

Inception* to March 31, 2018

	KAR Small-Mid Cap Core	Russell 2500™ Index
Annualized Return	11.29	10.77
Annualized Standard Deviation	14.66	18.42
Alpha	2.70	0.00
Beta	0.70	1.00
Sharpe Ratio	0.60	0.45
R-Squared	78.26	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-Mid 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-Mid Cap Core Wrap Portfolios. Small-Mid Cap Core Wrap Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2500™ 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 2500™ Index. The Russell 2500™ Index is a market capitalization-weighted index of the 2,500 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 July 2000. 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. Prior to December 31, 2005, net annual returns are calculated by deducting 1/4th of an assumed maximum annual wrap fee of 3% from the gross returns 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 (%)

December 31	Composite	Benchmark
2012	15.22	19.24
2013	12.17	15.85
2014	10.13	11.84
2015	12.17	12.59
2016	12.60	13.86

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 2500™ Index Annual Return (%)	Internal Dispersion
2007	5,392	738	100%	92	0.26	(1.37)	1.38	0.28
2008	3,445	309	100%	76	(29.90)	(31.33)	(36.79)	0.29
2009	4,010	342	100%	64	31.12	28.86	34.39	0.64
2010	4,729	316	100%	59	20.23	17.70	26.71	0.35
2011	5,232	337	100%	53	8.43	6.02	(2.51)	0.78
2012	6,545	422	100%	44	9.25	7.55	17.88	0.62
2013	7,841	362	100%	39	31.04	29.07	36.80	0.36
2014	7,989	373	100%	35	9.25	7.37	7.07	0.16
2015	8,095	378	100%	30	5.76	4.10	(2.90)	0.19
2016	9,989	369	100%	30	17.03	13.61	17.59	0.38

*Pure gross returns are supplemental to net returns.

The Russell 2500™ Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.