

Small Cap Core Portfolio

Third Quarter 2018 | Managed Accounts

Portfolio Review

The Small Cap Core portfolio outperformed the Russell 2000 Index during the third quarter. Performance was led by strong stock selection in the financial services and producer durables sectors. Factors negatively affecting the portfolio included weak stock selection in technology and an underweight in health care.

The biggest contributors to performance during the quarter were Teledyne Technologies and Primerica.

- Teledyne in August reported its best quarter in history, with organic sales increasing 8%, driven by broad-based growth across the portfolio. Operating income also increased, by 35%, driven by the operating leverage of the business. We view the company's success as a result of its differentiated offerings that are facing end markets with positive tailwinds.
- Primerica reported a strong quarter, with topline growing by 13% and operating income increasing by 17%. These positive results were generated primarily by continued execution via an increasing sales force, investing in digital capabilities and expanding product offerings. We continue to view Primerica's low-cost distribution as an advantage and remain owners of the business.

The biggest detractors from the portfolio were Autohome and Rightmove.

- Escalating trade friction between China and the U.S. and the potential impact the conflicts could have on China's economy have weighed on Autohome's stock. In addition, new-car sales have been weak in China following the demise of many peer-to-peer lending platforms.
- Rightmove's shares declined due to weak trends in U.K. residential real estate, commission pressure facing agents, and the potential fallout from Brexit.

Purchases and Sales

There were no new buys or complete sales in the strategy in the third quarter.

Outlook

A flat Treasury yield curve continues to concern investors, the U.S. and China are locked in an ongoing trade spat, and troubles in emerging markets persist. But uncertainty and volatility in markets are to be expected. While we do pay attention to such factors causing concern, we also remain focused on the economic and business fundamentals. The U.S. appears to be one of the pillars of strength in the global economy today, with third-quarter GDP growth projected to be strong and various sectors continuing to expand. We are committed to investing in high-quality businesses that have a sustainable competitive edge. We believe this is the best long-term protection we can provide in today's environment of heightened market and geopolitical uncertainty.



Portfolio Highlights

Style: Small Cap
Sub-Style: Core
Index: Russell 2000®
Portfolio Inception: 1992
Portfolio Assets: \$6,865.3 M
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	32
Todd Bailey, CFA Portfolio Manager + Senior Research Analyst	19
Jon Christensen, CFA Portfolio Manager + Senior Research Analyst	23
Julie Biel, CFA Senior Research Analyst	10
Julie Kutasov Senior Research Analyst	17
Craig Stone Senior Research Analyst	29
Chris Wright, CFA Senior Research Analyst	8
Sean Dixon Research Analyst	9
Adam Xiao, CFA Research Analyst	3
Jordan Greenhouse Portfolio Specialist	21†

Top Five Holdings

As of September 30, 2018

Company	Percent of equity (%)
Autohome	7.4
Teledyne Technologies	7.0
Primerica	6.4
Copart	6.0
CDW	5.9
Total	32.7

†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
<p>200 Stocks</p> <p>Quantitative Screens</p> <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 <p>Other Resources</p> <ul style="list-style-type: none"> Research on existing portfolio holdings Meetings with companies Industry reviews Investment conferences Third-party research 	<p>50–60 Stocks</p> <p>Qualitative Analysis</p> <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 <p>Financial Analysis</p> <ul style="list-style-type: none"> Evaluate basis for superior profitability, long-term growth potential, and ability to allocate capital appropriately <p>Valuation Analysis</p> <ul style="list-style-type: none"> Determine the current and potential value of the business 	<p>20–40 Stocks</p> <p>Position Weights</p> <ul style="list-style-type: none"> Typically 3%-4% Maximum weight 10% (at market) <p>Sector Tolerances*</p> <ul style="list-style-type: none"> Typically +/- 10% of the Russell 2000® Index, utilizing Russell sector classifications <p>Non-U.S. Holdings</p> <ul style="list-style-type: none"> Not to exceed 20% (at market) <p>Holding Period</p> <ul style="list-style-type: none"> Typically 3-to-5 years, but is often longer Portfolio turnover is typically 25% to 35% <p>Cash Levels</p> <ul style="list-style-type: none"> Typically will not exceed 10% once a portfolio is fully invested 	<p>Extended Valuation</p> <p>Portfolio Upgrade</p> <p>Diversification Requirements</p> <p>Acquisition Activity</p> <p>Negative Company or Industry Changes</p>

*A consequence of our high-quality investment philosophy is that certain sectors do not meet our financial criteria and offer fewer investable ideas. Our portfolios therefore will likely have persistently low exposure to those segments of the economy (and therefore may cause our sector weights to be outside of the 10% threshold relative to the benchmark). Companies operating in these areas produce consistently low or no profitability, are capital intensive, are heavily indebted, or have overly complex balance sheet structures. These may include large sectors such as Financials (real estate and banking) and Health Care (biotechnology) and also smaller sectors such as Materials & Processing (chemicals, metals and mining), Energy (oil and gas), and Utilities where we will have little to no exposure.

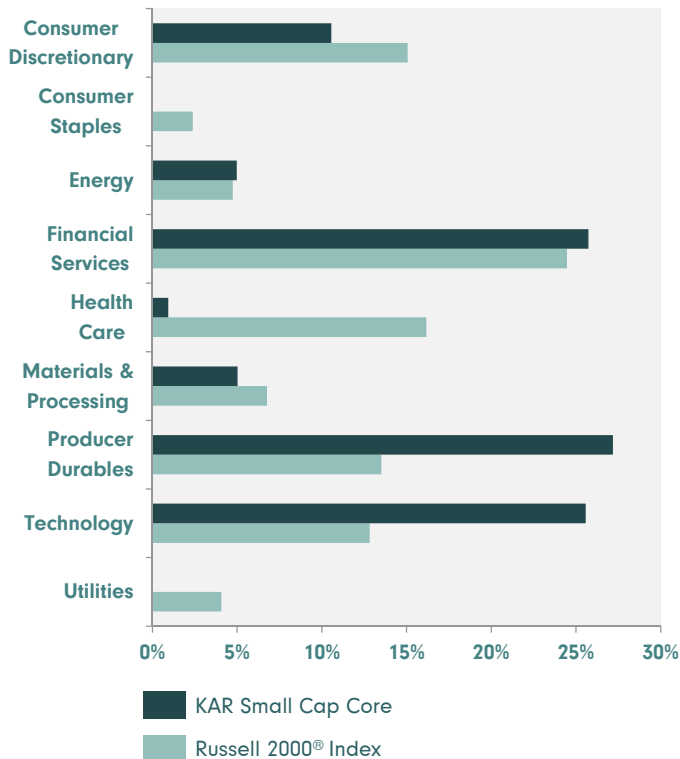
Higher Quality

Stronger, More Consistent Growth

Better Value

Sector Diversification

As of September 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 September 30, 2018

	KAR Small Cap Core	Russell 2000® Index
Quality		
Return on Equity—Past 5 Years	27.1%	9.9%
Total Debt/EBITDA	1.1 x	5.5 x
Earnings Variability—Past 10 Years	29.5%	80.6%
Growth		
Earnings Per Share Growth—Past 10 Years	14.1%	7.5%
Dividend Per Share Growth—Past 10 Years	14.0%	5.3%
Capital Generation—{ROE x (1-Payout)}	20.1%	7.6%
Value		
P/E Ratio—Trailing 12 Months	28.7 x	37.2 x
Dividend Yield	0.8%	1.2%
Free Cash Flow Yield†	3.2%	1.6%
Market Characteristics		
\$ Weighted Average Market Cap—3-Year Avg.	\$5.1 B	\$2.1 B
Largest Market Cap—3-Year Avg.	\$9.7 B	\$8.6 B
Annualized Standard Deviation—Since Inception‡	15.4%	19.1%

†Free cash flow data is as of June 30, 2018. Prices are as of September 30, 2018. Excludes financials.

‡April 1, 1992

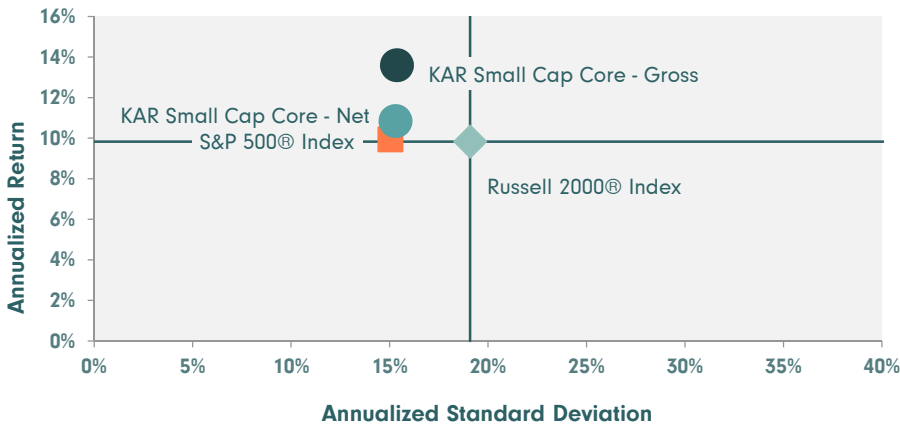
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. 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 September 30, 2018



Historical Returns

	KAR Small Cap Core (gross)	KAR Small Cap Core (net) [‡]	Russell 2000® Index
Annualized Returns (%)[†]			
As of September 30, 2018			
3 rd Quarter	4.23	3.48	3.58
Year to Date	15.69	13.23	11.51
One Year	26.98	23.38	15.24
Three Years	26.02	22.54	17.12
Five Years	16.91	14.22	11.07
Seven Years	18.84	16.31	16.43
Ten Years	15.74	13.42	11.11
Inception*	13.60	10.83	9.83

Annual Returns (%)	KAR Small Cap Core (gross)	KAR Small Cap Core (net)	Russell 2000® Index
2017	35.43	31.52	14.65
2016	18.55	15.09	21.31
2015	2.09	0.51	(4.41)
2014	7.31	5.57	4.89
2013	30.89	28.76	38.82
2012	13.75	11.80	16.35
2011	9.64	7.75	(4.18)
2010	24.83	22.56	26.85
2009	31.80	29.72	27.17
2008	(28.15)	(29.36)	(33.79)
2007	3.25	1.71	(1.57)
2006	13.46	11.87	18.37
2005	7.87	4.63	4.55
2004	23.07	19.42	18.33
2003	35.02	31.19	47.25
2002	(13.73)	(16.34)	(20.48)
2001	6.82	3.74	2.49
2000	20.98	17.42	(3.02)
1999	7.02	3.93	21.26
1998	20.98	17.42	(2.55)
1997	21.00	17.45	22.36
1996	26.98	23.22	16.49
1995	18.57	15.07	28.45
1994	2.75	(0.26)	(1.82)
1993	20.00	16.54	18.88
1992 [§]	9.65	7.25	10.16

*April 1, 1992

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

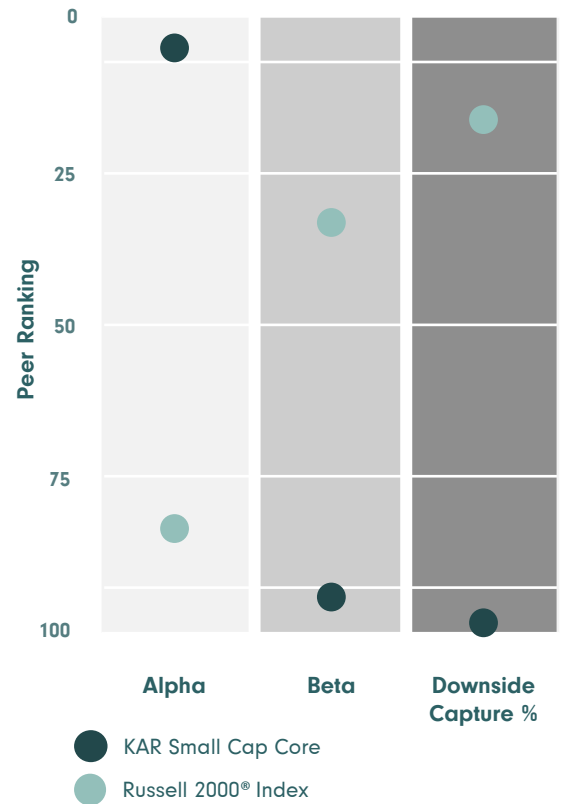
[‡]Net of all fees and expenses. Assumes a 3% annual fee.

[§]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 Cap Core Universe includes all managers categorized in the small 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 September 30, 2018



Performance Statistics

Inception* to September 30, 2018

	KAR Small Cap Core	Russell 2000® Index
Annualized Return	13.60	9.83
Annualized Standard Deviation	15.37	19.09
Alpha	5.35	0.00
Beta	0.72	1.00
Sharpe Ratio	0.72	0.38
R-Squared	80.46	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, 2017.

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 Core Wrap Composite has been examined for the period from January 1, 1999 through December 31, 2017. 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 Core Wrap Portfolios. Small Cap Core Wrap Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2000® 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® Index. The Russell 2000® Index is a market capitalization-weighted index 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 October 1995. 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 exceed 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 by 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 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	15.37	20.48
2013	11.96	16.68
2014	9.77	13.31
2015	11.15	14.16
2016	12.19	15.99
2017	11.38	14.11

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® Index Annual Return (%)	Internal Dispersion
2008	3,445	469	100%	49	(28.15)	(29.36)	(33.79)	0.42
2009	4,010	565	100%	54	31.80	29.72	27.17	0.71
2010	4,729	659	100%	67	24.83	22.56	26.85	0.71
2011	5,232	846	100%	70	9.64	7.75	(4.18)	0.51
2012	6,545	1073	100%	71	13.75	11.80	16.35	0.31
2013	7,841	1336	100%	67	30.89	28.76	38.82	0.45
2014	7,989	1294	100%	70	7.31	5.57	4.89	0.27
2015	8,095	1023	100%	55	2.09	0.51	(4.41)	0.38
2016	9,989	1222	100%	74	18.55	15.09	21.31	0.81
2017	14,609	1778	100%	67	35.43	31.52	14.65	1.29

*Pure gross returns are supplemental to net returns.

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