

## Small Cap Sustainable Growth Portfolio

### Second Quarter 2017 | Managed Accounts



#### Portfolio Review

The Small Cap Sustainable Growth portfolio outperformed the Russell 2000 Growth Index during the second quarter. The portfolio was helped by strong stock selection in the consumer discretionary and materials sectors. Negative stock selection in the consumer staples sector and an underweight in utilities detracted from performance.

Holdings that contributed the most to performance during the quarter were Autohome and National Research. Despite a slowdown in car sales volumes in China, Autohome's most recent quarterly sales results showed robust growth, which speaks to the secular shift of ad budgets from offline to online media. As the new management team rids the company of the new car transaction business, we are seeing the underlying profitability of the core business begin to reemerge. Given Autohome's strong competitive positioning, better capital allocation under new management and the expected long-term growth of the Chinese car market, we remain owners of the business. National Research saw its shares increase in the quarter, as the company reported solid financial results driven by new client wins and higher contracts with existing clients. As the health care community focuses more on outcome-based reimbursement, we believe that National Research should be a direct beneficiary.

Holdings that contributed the least to performance were NVE and PriceSmart. NVE reported solid results, with rebounding product sales growth easily offsetting softness in contract research revenue. However, the company also announced a new partnership in the automotive sector. Some investors are concerned that while this will drive higher volumes, it may also negatively impact margins. Although PriceSmart continues to see improved profitability in its growing Colombian market, it is facing economic headwinds in markets, such as the Caribbean. While execution remains solid, investors are likely to be concerned by the economic volatility inherent in PriceSmart's markets.

#### Purchases and Sales

During the quarter, we made no complete purchases or sales in the Small Cap Sustainable Growth portfolio.

#### Outlook

Even in a mediocre GDP outlook environment, corporate earnings continue to look very solid over the next 6-12 months. As a result, stocks should continue to generate positive returns (although we may experience a correction along the way) for the foreseeable future. Despite the yield curve flattening materially, it is still not inverted and the Federal Reserve may feel less pressure to continue with another rate increase in the second half of the year. A meaningful increase in the price of crude oil, or major progress by the Trump Administration on tax reform and/or an infrastructure bill, could cause longer-term bond yields to rise over the next 6-12 months. This would give the Fed more wiggle room with short-term interest rates than what is currently available. The key takeaway for clients in this environment is to remember to focus on their real, longer-term objectives and to not get caught up in the day-to-day vagaries of the stock market.

#### Portfolio Highlights

**Style:** Small Cap  
**Sub-Style:** Growth  
**Index:** Russell 2000® Growth  
**Portfolio Inception:** 1998  
**Portfolio Assets:** \$1,505.1 M  
**Portfolio Turnover:** 25%–35%

#### Investment Management Team

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

#### Top Five Holdings

As of June 30, 2017

| Company                         | Percent of equity (%) |
|---------------------------------|-----------------------|
| Autohome                        | 7.6                   |
| Ollie's Bargain Outlet Holdings | 7.0                   |
| Fox Factory Holding             | 6.6                   |
| National Research               | 6.3                   |
| Omega Flex                      | 5.3                   |
| <b>Total</b>                    | <b>32.7</b>           |

\*Represents years of industry experience.

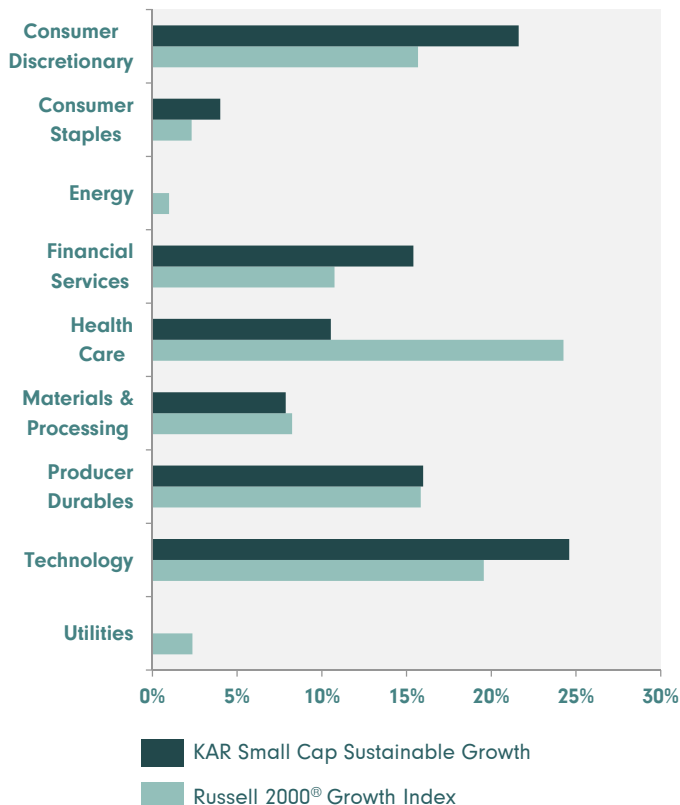
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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><br><br><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><br><br><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>23–35 Stocks</b><br><br><b>Position Weights</b> <ul style="list-style-type: none"> <li>Average position size is typically 3%</li> <li>Max initial position size is 5% (cost)</li> <li>Max position size is 10% (market)</li> </ul> <b>Sector Tolerances</b> <ul style="list-style-type: none"> <li>+/- 10% of the sector weights of the Russell 2000® Growth Index</li> </ul> <b>Holding Period</b> <ul style="list-style-type: none"> <li>Typically 3-to-5 years</li> <li>Portfolio turnover is typically 25% to 35%</li> </ul> <b>Cash Levels</b> <ul style="list-style-type: none"> <li>Typically Less than 5%</li> <li>Max cash position is 10%</li> </ul> | <b>Extended Valuation</b><br><br><b>Portfolio Upgrade</b><br><br><b>Diversification Requirements</b><br><br><b>Acquisition Activity</b><br><br><b>Negative Company or Industry Changes</b> |
| <b>Higher Quality   Stronger, More Consistent Growth   Better Value</b>  |   |   |  |

## Sector Diversification

As of June 30, 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 June 30, 2017

|  | KAR Small Cap Sustainable Growth | Russell 2000® Growth Index |
|--|----------------------------------|----------------------------|
| <b>Quality</b>                                 |                                  |                            |
| Return on Equity—Past 5 Years                  | 24.7%                            | 13.3%                      |
| Total Debt/EBITDA                              | 0.9 x                            | 5.2 x                      |
| Earnings Variance—Past 10 Years                | 31.0%                            | 75.9%                      |
| <b>Growth</b>                                  |                                  |                            |
| Earnings Per Share Growth—Past 10 Years        | 12.0%                            | 8.3%                       |
| Capital Generation—{ROE x (1-Payout)}          | 18.7%                            | 10.9%                      |
| <b>Value</b>                                   |                                  |                            |
| P/E Ratio—Trailing 12 Months                   | 35.2 x                           | 58.2 x                     |
| Free Cash Flow Yield†                          | 2.9%                             | 1.3%                       |
| <b>Market Characteristics</b>                  |                                  |                            |
| \$ Weighted Average Market Cap—4 Qtr. Avg.     | \$3.6 B                          | \$2.2 B                    |
| Largest Market Cap—4 Qtr. Avg.                 | \$11.4 B                         | \$8.7 B                    |
| Annualized Standard Deviation—Since Inception* | 19.8%                            | 24.6%                      |

\*January 1, 1998

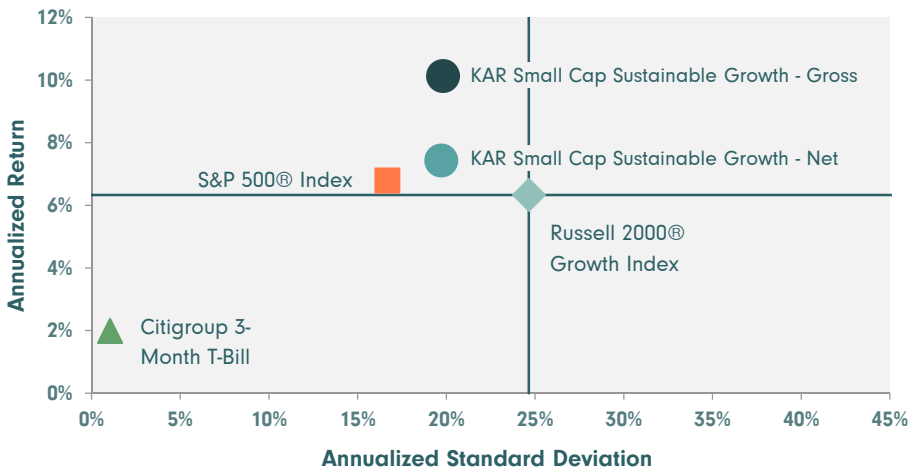
†Free cash flow data is as of March 31, 2017. Prices are as of June 30, 2017. Excludes financials. This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. 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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## Second Quarter 2017 | Managed Accounts

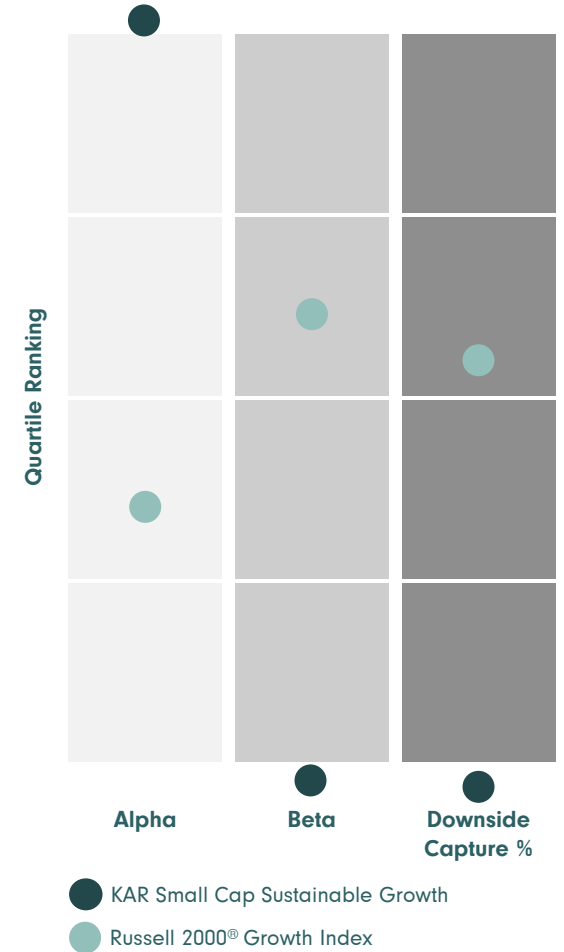
### Strong Risk-Adjusted Returns

Inception\* to June 30, 2017



### Peer Comparison Chart

Ten Years Ending June 30, 2017



### Historical Returns

|   | KAR Small Cap Sustainable Growth (gross) | KAR Small Cap Sustainable Growth (net) <sup>†</sup> | Russell 2000® Growth Index |
|---|--|---|----------------------------|
| <b>Annualized Returns (%)<sup>†</sup></b> |  |   |                            |
| As of June 30, 2017                       |  |   |                            |
| 2 <sup>nd</sup> Quarter                   | 11.26                                    | 10.46   | 4.39                       |
| Year to Date                              | 17.56                                    | 15.86   | 9.97                       |
| One Year                                  | 35.71                                    | 31.79   | 24.40                      |
| Three Years                               | 17.87                                    | 15.04   | 7.64                       |
| Five Years                                | 19.16                                    | 16.49   | 13.98                      |
| Seven Years                               | 19.74                                    | 16.98   | 15.16                      |
| Ten Years                                 | 11.90                                    | 9.51  | 7.82                       |
| Inception*                                | 10.13                                    | 7.43  | 6.33                       |

|                           | KAR Small Cap Sustainable Growth (gross) | KAR Small Cap Sustainable Growth (net) <sup>†</sup> | Russell 2000® Growth Index |
|---------------------------|--|---|----------------------------|
| <b>Annual Returns (%)</b> |  |   |                            |
| 2016                      | 26.59                                    | 22.92   | 11.32                      |
| 2015                      | 1.91                                     | (0.07)  | (1.38)                     |
| 2014                      | 5.16                                     | 3.19  | 5.60                       |
| 2013                      | 40.55                                    | 37.73   | 43.30                      |
| 2012                      | 12.38                                    | 10.05   | 14.59                      |
| 2011                      | 18.59                                    | 15.50   | (2.91)                     |
| 2010                      | 15.44                                    | 13.07   | 29.09                      |
| 2009                      | 39.32                                    | 36.77   | 34.47                      |
| 2008                      | (33.73)                                  | (34.93)   | (38.54)                    |
| 2007                      | (0.61)                                   | (2.14)  | 7.05                       |
| 2006                      | 15.47                                    | 13.12   | 13.35                      |
| 2005                      | 2.71                                     | (0.39)  | 4.15                       |
| 2004                      | 13.42                                    | 10.02   | 14.31                      |
| 2003                      | 39.90                                    | 35.88   | 48.54                      |
| 2002                      | (23.82)                                  | (26.14)   | (30.26)                    |
| 2001                      | 0.48                                     | (2.42)  | (9.23)                     |
| 2000                      | 6.28                                     | 3.13  | (22.43)                    |
| 1999                      | 31.19                                    | 27.42   | 43.09                      |
| 1998                      | 3.33                                     | 0.20  | 1.23                       |

\*January 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.

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 Growth Universe includes all managers categorized in the small cap growth 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.

### Performance Statistics

Inception\* to June 30, 2017

|                               | KAR Small Cap Sustainable Growth | Russell 2000® Growth Index |
|-------------------------------|----------------------------------|----------------------------|
| Annualized Return             | 10.13                            | 6.33                       |
| Annualized Standard Deviation | 19.81                            | 24.65                      |
| Alpha                         | 4.66                             | 0.00                       |
| Beta                          | 0.71                             | 1.00                       |
| Sharpe Ratio                  | 0.41                             | 0.18                       |
| R-Squared                     | 78.83                            | 100.00                     |

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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, 2015.

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 Sustainable Growth Wrap Composite has been examined for the period from January 1, 1999 through December 31, 2015. 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 Sustainable Growth Wrap Portfolios. Small Cap Sustainable Growth Wrap Portfolios are invested in equity securities with market capitalizations in line with the Russell 2000® Growth 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® Growth Index. The Russell 2000® Growth Index is a market capitalization-weighted index of growth-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 July 2003. 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 December 31, 2010, 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 1/4<sup>th</sup> 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 1/12<sup>th</sup> 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        | 15.36     | 21.01     |
| 2013        | 11.96     | 17.52     |
| 2014        | 11.97     | 14.02     |
| 2015        | 13.80     | 15.16     |
| 2016        | 14.67     | 16.91     |

| 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® Growth Index Annual Return (%) | Internal Dispersion |
|------|---------------------------------|--------------------------------------|--|----------------------|-------------------------------|-----------------------|--|---------------------|
| 2007 | 5,392                           | 147                                  | 100%                                   | 9                    | (0.61)                        | (2.14)                | 7.05   | 0.20                |
| 2008 | 3,445                           | 74                                   | 100%                                   | 12                   | (33.73)                       | (34.93)               | (38.54)                                      | 0.99                |
| 2009 | 4,010                           | 77                                   | 100%                                   | 13                   | 39.32                         | 36.77                 | 34.47  | 1.11                |
| 2010 | 4,729                           | 63                                   | 100%                                   | 12                   | 15.44                         | 13.07                 | 29.09  | 0.55                |
| 2011 | 5,232                           | 12                                   | 100%                                   | 13                   | 18.59                         | 15.50                 | (2.91)                                       | 1.04                |
| 2012 | 6,545                           | 31                                   | 100%                                   | 32                   | 12.38                         | 10.05                 | 14.59  | 0.98                |
| 2013 | 7,841                           | 23                                   | 100%                                   | 26                   | 40.55                         | 37.73                 | 43.30  | 0.58                |
| 2014 | 7,989                           | 20                                   | 100%                                   | 23                   | 5.16                          | 3.19                  | 5.60   | 0.30                |
| 2015 | 8,095                           | 36                                   | 100%                                   | 24                   | 1.91                          | (0.07)                | (1.38)                                       | 0.60                |
| 2016 | 9,989                           | 53                                   | 100%                                   | 24                   | 26.59                         | 22.92                 | 11.32  | 0.38                |

\*Pure gross returns are supplemental to net returns.

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