

Small Cap Sustainable Growth Portfolio

Third Quarter 2017 | Managed Accounts



Portfolio Review

The Small Cap Sustainable Growth portfolio outperformed the Russell 2000 Growth Index during the third quarter. The portfolio was helped by strong stock selection in the consumer staples and technology sectors. Negative stock selection in the materials and processing sector detracted from performance.

Holdings that contributed the most to performance during the quarter were Autohome and National Research. Autohome reported another quarter of robust revenue growth and profit improvement that surpassed expectations, as its financial results continue to benefit from the secular shift of ad budgets from offline to online media. It is worth noting that just before the end of the third quarter, two senior executives at Autohome resigned for personal reasons. Based on follow-up conversations we have had with the company, these departures were not related to the fundamentals of the business and management will maintain the current corporate strategy. Therefore, given Autohome's strong competitive positioning, improved capital allocation and the expected long-term growth of the Chinese car market, we remain owners of the business. National Research's shares increased 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 Ellie Mae and Abaxis. Ellie Mae reported slightly weaker-than-expected results and lowered guidance for the year. The company underestimated the impact of the material drop off in refinance loan volume this year and the associated impact on closed-loan fees. Additionally, Ellie has had success winning larger customer deals, which take longer to implement. This delayed revenue also impacted Ellie's financial results. We believe the new guidance is appropriately conservative and expect the company to resume its more robust growth in 2018, as its substantial customer wins offset any weakness in loan volumes. Abaxis saw its shares fall in the quarter after reporting another weak sales quarter as its veterinarian business grew slightly while medical was down due to distributor de-stocking. The company is ramping up its research and development efforts that should drive the top line, but this disconnect with the financials could continue for a few more quarters. The solid balance sheet and high consumables mix combined with a re-rating of the shares with future growth ahead keeps us as shareholders.

Purchases and Sales

During the quarter, we bought a position in Emerald Expositions and made no complete sales.

Emerald Expositions operates business-to-business trade shows. The company is the largest trade show operator in the U.S., conducting over 50 trade shows per year. Of these 50-plus shows, 32 are ranked in the top 250 and about 20 have been in existence for over 20 years. Because of this, Emerald benefits from significant network effects. The company is capital-light, resulting in high returns and consistent free cash flow.

Outlook

On balance, the outlook for equities continues to be favorable. Any meaningful uptick in inflation caused by either higher energy prices or significant wage growth is the principal risk in the outlook for the stock market. We will continue to monitor inflationary trends closely over the next couple of years. Geopolitical events, such as hurricanes and tensions with North Korea, have taken a back seat to the improving global earnings outlook so far this year. With the stock market at all-time highs, we believe it is important for clients to focus more than ever on their longer-term goals and risk tolerance, as market corrections can and do occur frequently—even in bull markets. With such unpredictability, we recommend that clients do not try to time the market, as most often investors fail severely in this endeavor and hurt their returns.

Portfolio Highlights

Style: Small Cap
Sub-Style: Growth
Index: Russell 2000® Growth
Portfolio Inception: 1998
Portfolio Assets: \$1,997.5 M
Portfolio Turnover: 25%–35%

Investment Management Team

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

Top Five Holdings

As of September 30, 2017

Company	Percent of equity (%)
Autohome	8.4
National Research	7.2
Fox Factory Holding	7.0
Ollie's Bargain Outlet Holdings	6.7
HEICO	5.7
Total	35.1

*Represents years of industry experience.

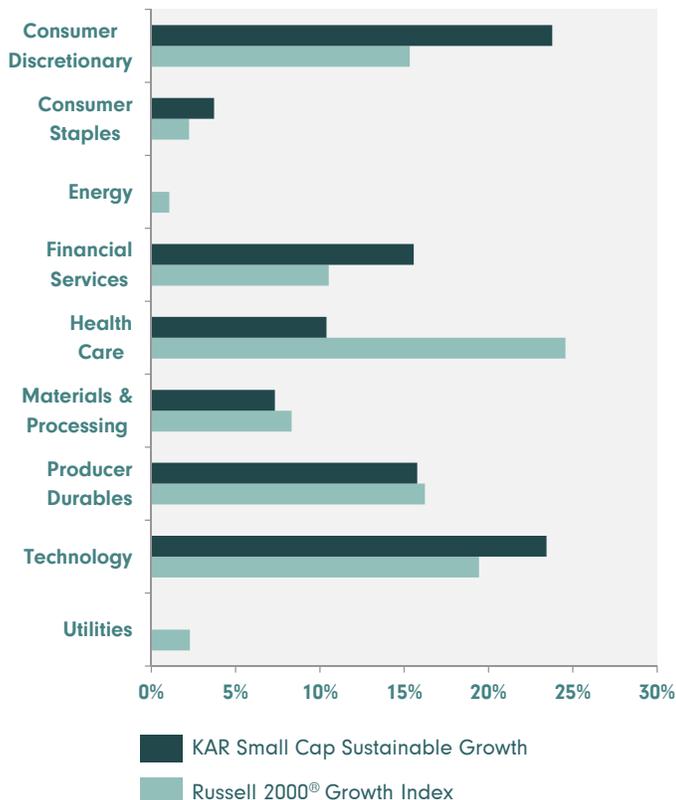
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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 	23–35 Stocks Position Weights <ul style="list-style-type: none"> Average position size is typically 3% Max initial position size is 5% (cost) Max position size is 10% (market) Sector Tolerances <ul style="list-style-type: none"> +/- 10% of the sector weights of the Russell 2000® Growth Index Holding Period <ul style="list-style-type: none"> Typically 3-to-5 years Portfolio turnover is typically 25% to 35% Cash Levels <ul style="list-style-type: none"> Typically Less than 5% Max cash position is 10% 	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 September 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 September 30, 2017

	KAR Small Cap Sustainable Growth	Russell 2000® Growth Index
Quality		
Return on Equity—Past 5 Years	23.5%	13.4%
Total Debt/EBITDA	0.9 x	3.8 x
Earnings Variance—Past 10 Years	28.0%	76.3%
Growth		
Earnings Per Share Growth—Past 10 Years	10.5%	8.7%
Capital Generation—{ROE x (1-Payout)}	17.7%	11.0%
Value		
P/E Ratio—Trailing 12 Months	38.1 x	57.3 x
Free Cash Flow Yield†	3.0%	1.0%
Market Characteristics		
\$ Weighted Average Market Cap—4 Qtr. Avg.	\$4.1 B	\$2.3 B
Largest Market Cap—4 Qtr. Avg.	\$14.0 B	\$9.9 B
Annualized Standard Deviation—Since Inception*	19.8%	24.5%

*January 1, 1998

†Free cash flow data is as of June 30, 2017. Prices are as of September 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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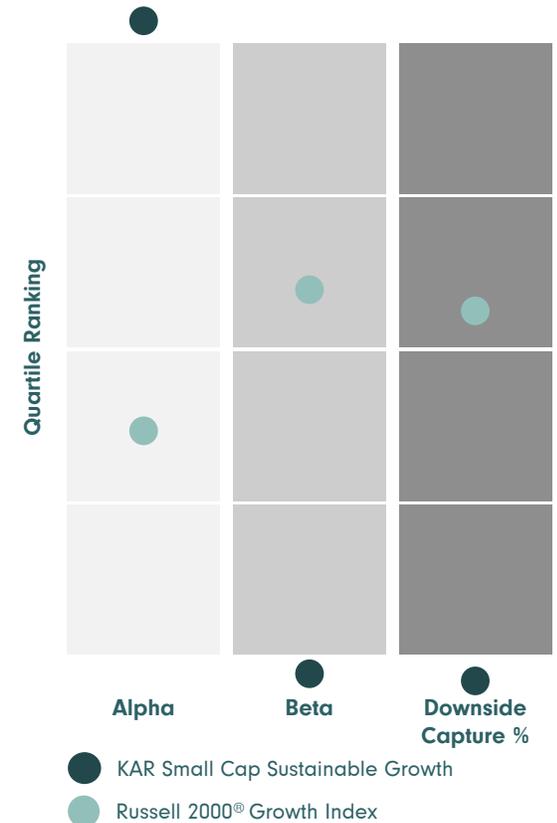
Strong Risk-Adjusted Returns

Inception* to September 30, 2017



Peer Comparison Chart

Ten Years Ending September 30, 2017



Historical Returns

	KAR Small Cap Sustainable Growth (gross)	KAR Small Cap Sustainable Growth (net) [‡]	Russell 2000® Growth Index
Annualized Returns (%)[†]			
As of September 30, 2017			
3 rd Quarter	12.06	11.25	6.22
Year to Date	31.74	28.89	16.81
One Year	38.99	34.98	20.98
Three Years	24.10	21.02	12.17
Five Years	20.96	18.21	14.28
Seven Years	20.77	17.98	14.17
Ten Years	13.09	10.64	8.47
Inception*	10.64	7.92	6.57
Annual Returns (%)			
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

[†]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.

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 September 30, 2017

	KAR Small Cap Sustainable Growth	Russell 2000® Growth Index
Annualized Return	10.64	6.57
Annualized Standard Deviation	19.79	24.50
Alpha	4.98	0.00
Beta	0.72	1.00
Sharpe Ratio	0.44	0.19
R-Squared	78.54	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, 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 1/4th 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	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.