

Small Cap Sustainable Growth Portfolio

First Quarter 2018 | Managed Accounts

Portfolio Review

The Small Cap Sustainable Growth portfolio outperformed the Russell 2000 Growth Index during the first quarter. Returns were primarily driven by strong stock selection in the producer durables, technology and financial services sectors. An underweight in health care offset some of the gains.

Positions that contributed the most to the portfolio during the quarter were Autohome and MercadoLibre. Autohome reported strong fourth-quarter earnings, with revenue growth in excess of 30% and profit margins higher than a year earlier. The company continues to benefit from the secular shift of ad revenues to online media and the network effects inherent in the websites it operates. Given Autohome's strong competitive positioning, improved capital allocation discipline and the expected long-term growth of the Chinese car market, we remain owners of the business. MercadoLibre shares have recovered meaningfully since the company began its free-shipping initiative last year. While free shipping has put pressure on the company's margins, revenue growth has accelerated, which should increase the network effects of the marketplace over the long term. While we continue to look favorably on MercadoLibre's business and management team, we sold our position in the most recent quarter because the market cap had surpassed a size that was appropriate for this portfolio.

Positions that detracted from the portfolio the most were National Research and Fox Factory Holding. National Research shares fell in the quarter following solid growth in 2017. Revenues continue to grow, but margins have been impacted by higher client service costs. As the health care community focuses more on outcomes-based reimbursement, we believe that National Research should be a direct beneficiary. Growth for Fox Factory is decelerating from an atypically high level in early 2017 that was driven by initial production for the Ford Raptor vehicle platform, for which Fox supplies suspension products.

Purchases and Sales

We bought Moelis & Co., Rightmove and Auto Trader Group during the first quarter. We completely closed our position in MercadoLibre (rationale provided above).

Moelis & Co. (MC) is a global investment bank that provides financial advisory, restructuring and capital raising services. The founders of MC have focused on hiring high-performing managing directors and cultivating a distinct firm culture and reputation. This has allowed MC to quickly take market share and climb the M&A league tables. While other firms could try to copy this model, successful execution is far from certain.

Rightmove is the No. 1 residential property website for properties for sale and to rent in the U.K. The company has established a strong network effect as U.K. home buyers have shifted their home-purchasing behavior. This network effect has allowed Rightmove considerable pricing power and margin expansion opportunities. The company has had double-digit revenue growth over the past five years, its balance sheet is clean and management has allocated free cash flow in a prudent manner.

Auto Trader operates the leading online automotive marketplace in the U.K. It is the clear leader in car listings in the U.K., with four times the buyer traffic and double the number of listings than those of the No. 2 player in the market. The strength of the Auto Trader brand in the U.K. is evident in that (1) more than 80% of all time spent on automotive classified websites is spent on Auto Trader, (2) Auto Trader has more dealer reviews than any other site, and (3) Auto Trader does more valuations of used cars than any other site.

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: Growth
Index: Russell 2000® Growth
Portfolio Inception: 1998
Portfolio Assets: \$3,402.7 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 Kutsov Senior Research Analyst	17
Craig Stone Senior Research Analyst	29
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 (%)
Autohome	9.2
Interactive Brokers Group	6.8
Old Dominion Freight Line	5.6
Ollie's Bargain Outlet Holdings	5.2
Fox Factory Holding	5.2
Total	32.0

*Represents years of industry experience.

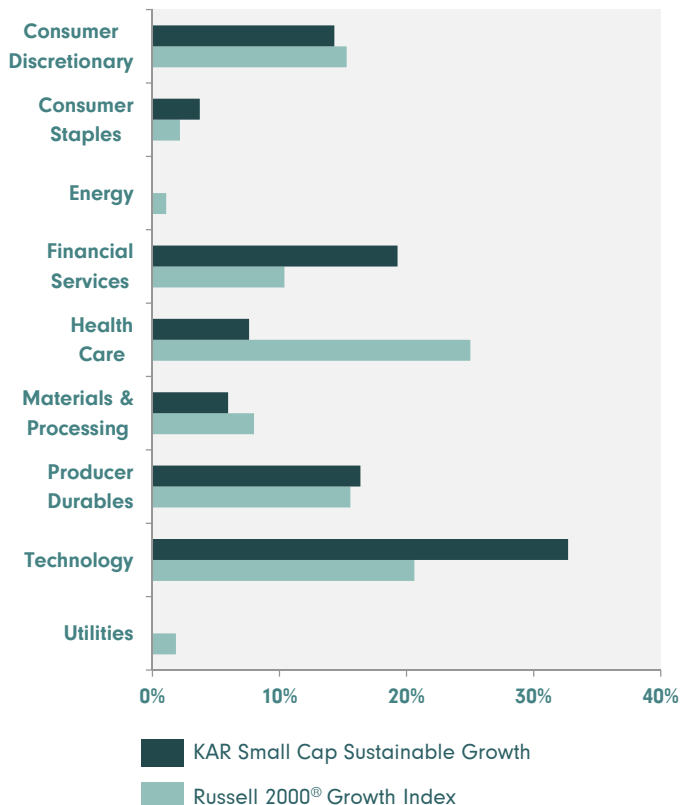
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation 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® Growth 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 Sustainable Growth	Russell 2000® Growth Index
Quality		
Return on Equity—Past 5 Years	22.5%	13.5%
Total Debt/EBITDA	1.2 x	4.0 x
Earnings Variability—Past 10 Years	30.2%	69.9%
Growth		
Earnings Per Share Growth—Past 10 Years	12.6%	10.1%
Capital Generation—{ROE x (1-Payout)}	17.3%	11.4%
Value		
P/E Ratio—Trailing 12 Months	38.0 x	56.6 x
Free Cash Flow Yield†	2.7%	1.8%
Market Characteristics		
\$ Weighted Average Market Cap—3-Year Avg.	\$3.8 B	\$2.3 B
Largest Market Cap—3-Year Avg.	\$13.1 B	\$8.1 B
Annualized Standard Deviation—Since Inception*	19.6%	24.2%

*January 1, 1998

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

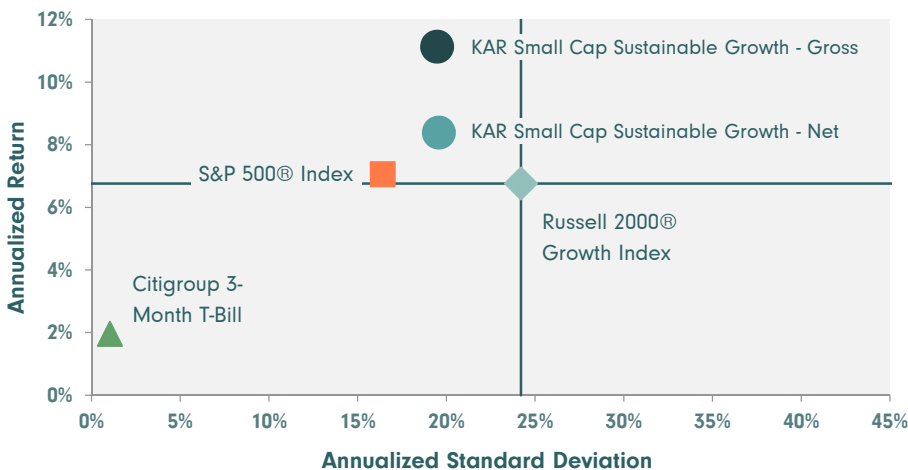
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. Past performance is no guarantee of future results.

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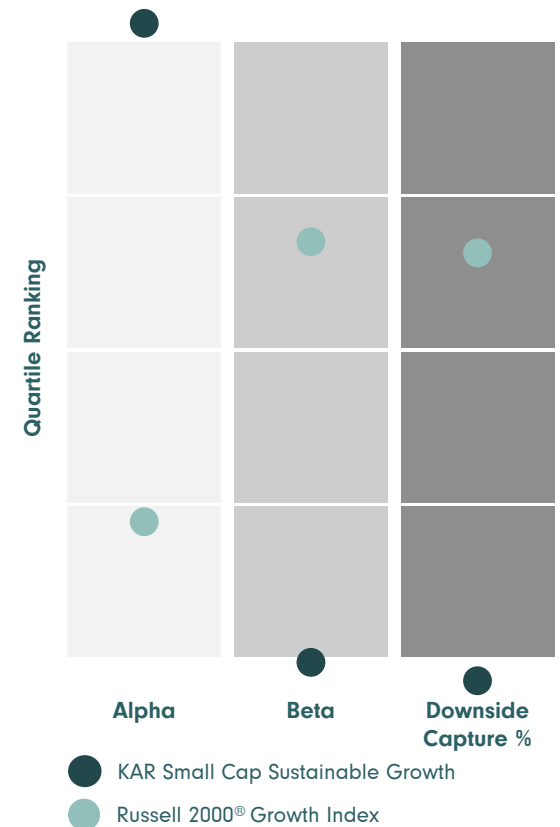
Strong Risk-Adjusted Returns

Inception* to March 31, 2018



Peer Comparison Chart

Ten Years Ending March 31, 2018



Historical Returns

	KAR Small Cap Sustainable Growth (gross)	KAR Small Cap Sustainable Growth (net) [†]	Russell 2000® Growth Index
Annualized Returns (%)[†]			
As of March 31, 2018			
1 st Quarter	7.00	6.22	2.30
One Year	43.30	39.18	18.63
Three Years	23.44	20.16	8.77
Five Years	21.04	18.19	12.90
Seven Years	19.63	16.85	11.29
Ten Years	16.25	13.66	10.95
Inception*	11.13	8.39	6.76

	KAR Small Cap Sustainable Growth	Russell 2000® Growth Index
Annual Returns (%)		
2017	41.80	22.17
2016	26.59	11.32
2015	1.91	(1.38)
2014	5.16	5.60
2013	40.55	43.30
2012	12.38	14.59
2011	18.59	(2.91)
2010	15.44	29.09
2009	39.32	34.47
2008	(33.73)	(38.54)
2007	(0.61)	7.05
2006	15.47	13.35
2005	2.71	4.15
2004	13.42	14.31
2003	39.90	48.54
2002	(23.82)	(30.26)
2001	0.48	(9.23)
2000	6.28	(22.43)
1999	31.19	43.09
1998	3.33	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 March 31, 2018

	KAR Small Cap Sustainable Growth	Russell 2000® Growth Index
Annualized Return	11.13	6.76
Annualized Standard Deviation	19.58	24.20
Alpha	5.34	0.00
Beta	0.72	1.00
Sharpe Ratio	0.47	0.20
R-Squared	78.37	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 Sustainable Growth 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 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)	0.25
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.