Kayne Anderson Rudnick
Investment Management

Mid Cap Core Portfolio

Fourth Quarter 2017 | Managed Accounts

Portfolio Review

The Mid Cap Core portfolio outperformed the Russell Midcap Index during the fourth quarter. The outperformance was driven largely by strong stock selection in the health care and consumer discretionary sectors. Performance was hurt by negative stock selection in financial services and technology.

The biggest contributors to performance were Globus Medical and Monster Beverage.

Globus Medical saw its shares rise after underperforming in the previous quarter. Its sales force has ramped up nicely and driven revenues as new products from its robotics offerings begin to bear fruit.

Monster Beverage suffered several quarters of erratic financial performance due to the transition into the Coke global distribution network and some production hiccups in the U.S. However, those headwinds appear to be dissipating as recent quarterly results showed a pickup in revenue growth in both the U.S. and international markets. We think the upswing in domestic markets is sustainable, and, as the company gains scale from increased international distribution via Coke, profits should increase meaningfully.

Names that detracted the most from performance were Cooper Companies and Skyworks Solutions.

Cooper shares underperformed in the quarter as the growth rate in revenues in its vision segment slowed relative to that of the overall U.S. market. We believe this is partially explained by the more difficult comparison Cooper had versus last year than did the market.

Skyworks reported solid results this quarter, but it remains very closely tied to Apple iPhone results. iPhone revenue accounts for 40% of Skyworks' business, and rumors around softer sales of the new flagship iPhone X impacted Skyworks' stock this quarter. While the company has been working to diversify away from Apple, the content gains it achieves in each iteration have made that transition challenging. Some bumpiness in Chinese smartphone demand also impacted the stock.

Purchases and Sales

During the quarter, we purchased Manhattan Associates and Houlihan Lokey. We closed our positions in Church & Dwight and RLI.

Manhattan is a vertical software provider that focuses on complex supply chain and omni-channel solutions. Despite the volatility in its retail customer base, the company continues to grow both top- and bottom-line results. Operating margins grew on average by 3% the last five years. While such growth is set to moderate, the company believes it still has margin expansion ahead. With a growing presence internationally, we are likely still in the early stages of a broad supply chain technology roll-out.

Houlihan Lokey is a global investment bank that provides financial advisory, restructuring and capital raising services. The firm has a culture and brand that differentiates it in the marketplace, which has translated into high employee retention and consistent market share gains over the years. With only a 2% market share today in its target middle-market, there is ample opportunity for the business to grow.

Church & Dwight announced it was acquiring Water Pik, a leading manufacturer of oral water flossers and replacement showerheads, marking the largest acquisition in its history. With little or no synergies expected in manufacturing and marketing and distribution, the deal diverges from Church & Dwight's traditional integration approach. We expect the Water Pik acquisition to pressure profitability and increase execution risk. Also, there has been a strategic shift in management's approach to capital allocation. Given these considerations and a lofty valuation of the stock, we exited our small position in the company.

The shares of RLI have been relatively stagnant in the last year along with muted premium growth and a re-underwriting of the transportation book. While the company remains a solid underwriter and has a stellar combined ratio, we sold our position due to the valuation ceiling and the slow top-line performance.

Outlook

The outlook for 2018 is favorable overall, but to expect another 2017 would be unreasonable. More volatility and drawdowns are anticipated in 2018 as markets return to more normal conditions. 2018 should continue to provide investors with mid-to-high single-digit equity returns but most likely not without a bumpy ride along the way. Investors should review their asset allocation and make sure they can "sleep at night" with their current equity exposure. We will continue to own high-quality businesses that can shine in good and bad times and have competitive protections.

Portfolio Highlights

Style: Mid Cap
Sub-Style: Core
Index: Russell Midcap®
Portfolio Inception: 2000
Portfolio Assets: $443.0 M
Portfolio Turnover: 25%–35%

Investment Management Team

Name	Years of research experience
Douglas S. Foreman, CFA Chief Investment Officer	31
Jon Christensen, CFA Portfolio Manager + Senior Research Analyst	22
Craig Stone Portfolio Manager + Senior Research Analyst	28
Todd Beiley, CFA Senior Research Analyst	18
Julie Kutasov Senior Research Analyst	16
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 December 31, 2017

Company	Percent of equity (%)
Globus Medical	6.2
Monster Beverage	6.0
AMETEK	5.5
Tractor Supply Company	5.1
Zoetis	4.5
Total	**27.3**

**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.

Kayne Anderson Rudnick
Investment Management

Investment Process: Discovering Quality

Development of High-Quality Universe

200 Stocks

Quantitative Screens
- High return on capital over a full economic cycle
- Long and resilient earnings history
- High return on net operating assets
- Minimal debt

Other Resources
- Research on existing portfolio holdings
- Meetings with companies
- Industry reviews
- Investment conferences
- Third-party research

Proprietary Fundamental Research

50–60 Stocks

Qualitative Analysis
- Evaluate sustainability of business model and assess management's ability to direct capital where it can create further control of its market

Financial Analysis
- Evaluate basis for superior profitability, long-term growth potential, and ability to allocate capital appropriately

Valuation Analysis
- Determine the current and potential value of the business

Portfolio Construction

25–35 Stocks

Position Weights
- Typically 3%-4%
- Maximum weight 10% (at market)

Sector Tolerances
- Typically +/- 10% of the Russell Midcap® Index, utilizing Russell sector classifications

Holding Period
- Typically 3-to-5 years, but is often longer
- Portfolio turnover is typically 25% to 35%

Cash Levels
- Typically will not exceed 10% once a portfolio is fully invested

Sell Discipline

Extended Valuation

Portfolio Upgrade

Diversification Requirements

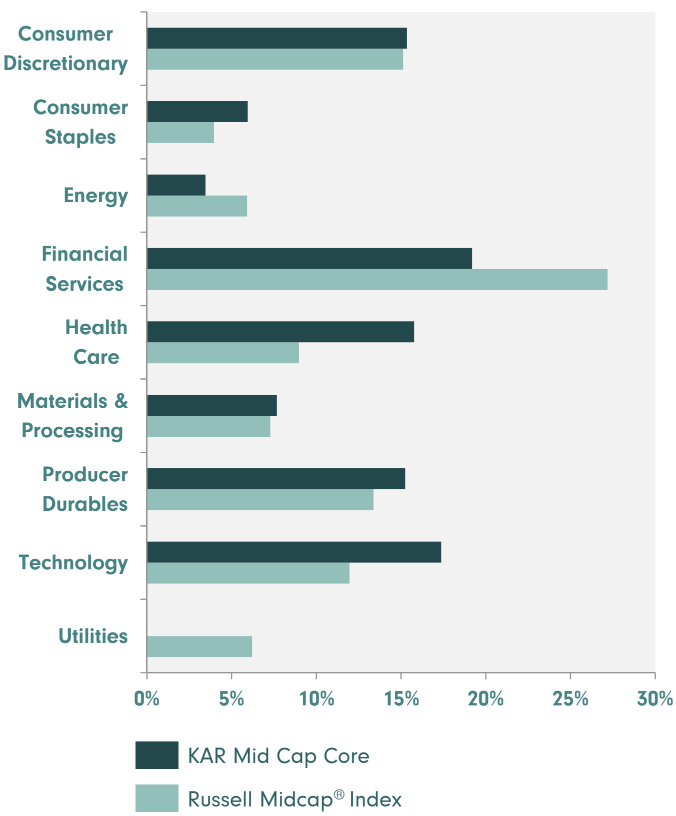
Acquisition Activity

Negative Company or Industry Changes

Higher Quality | Stronger, More Consistent Growth | Better Value

Sector Diversification

As of December 31, 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 December 31, 2017

	KAR Mid Cap Core	Russell Midcap® Index
Quality		
Return on Equity—Past 5 Years	**28.1%**	14.2%
Total Debt/EBITDA	**1.8 x**	4.0 x
Earnings Variance—Past 10 Years	**28.7%**	59.3%
Growth		
Earnings Per Share Growth—Past 5 Years	**10.3%**	8.8%
Earnings Per Share Growth—Past 10 Years	**16.4%**	8.0%
Dividend Per Share Growth—Past 5 Years	**15.3%**	11.4%
Dividend Per Share Growth—Past 10 Years	**17.8%**	8.3%
Capital Generation—{ROE x (1-Payout)}	**22.0%**	9.2%
Value		
P/E Ratio—Trailing 12 Months	**30.2 x**	28.9 x
Dividend Yield	**0.8%**	1.6%
Free Cash Flow Yield†	**3.6%**	3.6%
Market Characteristics		
$ Weighted Average Market Cap—3-Year Avg.	**$11.8 B**	$13.1 B
Largest Market Cap—3-Year Avg.	**$31.0 B**	$37.0 B
Annualized Standard Deviation—Since Inception*	**14.2%**	18.3%

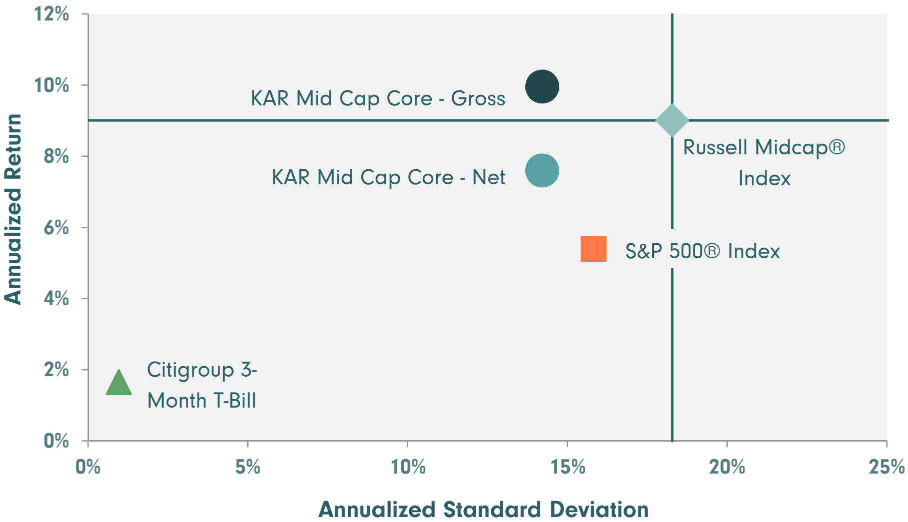
**January 1, 2000*
†Free cash flow data is as of September 30, 2017. Prices are as of December 31, 2017. Excludes financials.
This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Data is obtained from FactSet Research Systems and BNY Mellon 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.

Mid Cap Core Portfolio

Fourth Quarter 2017 | Managed Accounts

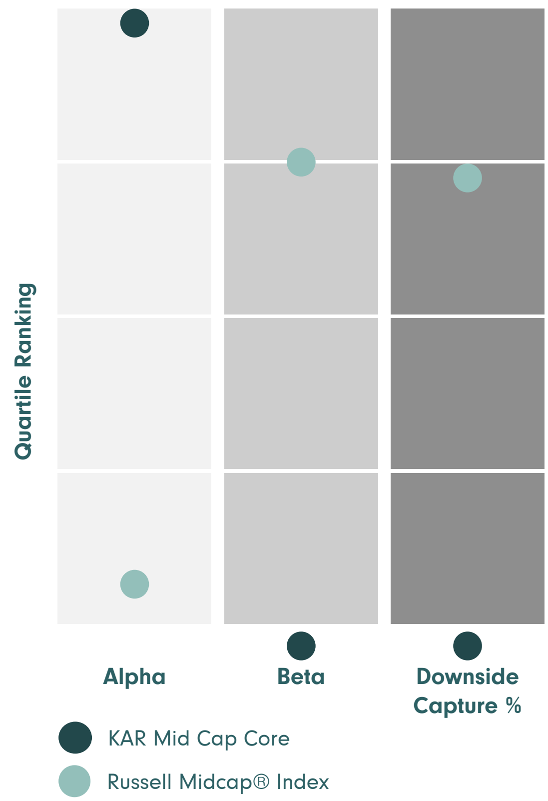
Strong Risk-Adjusted Returns

Inception* to December 31, 2017



Peer Comparison Chart

Ten Years Ending December 31, 2017



Historical Returns

	KAR Mid Cap Core (gross)	KAR Mid Cap Core (net)‡	Russell Midcap® Index
Annualized Returns (%)† As of December 31, 2017			
4th Quarter	9.39	8.60	6.07
One Year	26.74	23.07	18.52
Three Years	13.90	11.26	9.58
Five Years	17.48	15.37	14.96
Seven Years	15.33	13.38	12.76
Ten Years	10.86	8.96	9.11
Inception*	9.96	7.60	9.01
Annual Returns (%)			
2017	26.74	23.07	18.52
2016	12.24	8.95	13.80
2015	3.87	2.73	(2.44)
2014	17.88	16.68	13.22
2013	28.48	27.15	34.76
2012	16.27	14.45	17.28
2011	4.29	2.95	(1.55)
2010	19.46	17.99	25.48
2009	21.47	19.16	40.48
2008	(28.78)	(30.29)	(41.46)
2007	6.19	4.20	5.60
2006	13.10	10.91	15.26
2005	8.79	5.56	12.65
2004	15.29	11.86	20.22
2003	26.67	23.03	40.06
2002	(12.62)	(15.26)	(16.19)
2001	(2.76)	(5.59)	(5.62)
2000	21.54	17.94	8.25

Performance Statistics

Inception* to December 31, 2017

	KAR Mid Cap Core	Russell Midcap® Index
Annualized Return	**9.96**	9.01
Annualized Standard Deviation	**14.21**	18.28
Alpha	**2.73**	0.00
Beta	**0.71**	1.00
Sharpe Ratio	**0.59**	0.41
R-Squared	**84.54**	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.

**January 1, 2000*

†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 Mid Cap Core Universe includes all managers categorized in the 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.

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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 Mid Cap Core Wrap Composite has been examined for the period from January 1, 2000 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 discretionary Mid Cap Core Wrap Portfolios. Mid Cap Core Wrap Portfolios are invested in equity securities with market capitalizations consistent with the Russell Midcap® 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 Midcap® Index. The Russell Midcap® Index is a market capitalization-weighted index of the 800 smallest companies in the Russell 1000® Index, which comprises the 1,000 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 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	15.34	17.44
2013	12.48	14.23
2014	10.27	10.29
2015	11.94	11.00
2016	12.33	11.72

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 Midcap® Index Annual Return (%)	Internal Dispersion
2007	5,392	25	100%	7	6.19	4.20	5.60	0.06
2008	3,445	18	100%	9	(28.78)	(30.29)	(41.46)	0.15
2009	4,010	23	100%	8	21.47	19.16	40.48	0.35
2010	4,729	28	100%	8	19.46	17.99	25.48	0.87
2011	5,232	25	100%	6	4.29	2.95	(1.55)	0.70
2012	6,545	34	100%	7	16.27	14.45	17.28	0.16
2013	7,841	12	100%	6	28.48	27.15	34.76	0.28
2014	7,989	7	100%	5	17.88	16.68	13.22	0.16
2015	8,095	7	100%	5	3.87	2.73	(2.44)	N/A
2016	9,989	9	100%	5	12.24	8.95	13.80	0.14

**Pure gross returns are supplemental to net returns.*
The Russell Midcap® Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.