Kayne Anderson Rudnick

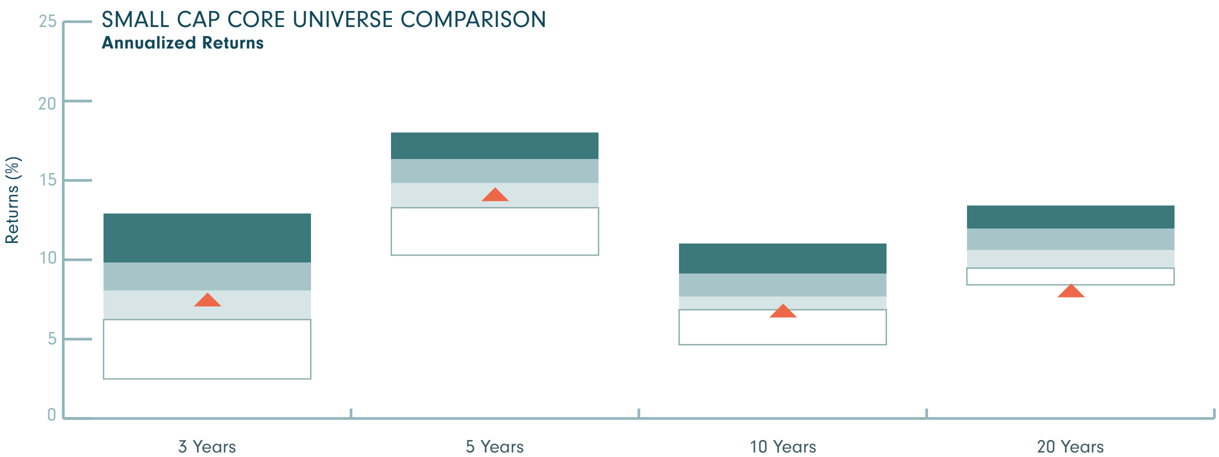
A VIRTUS INVESTMENT PARTNER

Thinking Beyond the Benchmark

Finding the high-quality sweet spot with the Kayne Anderson Rudnick Small Cap Core strategy

ACTIVE OR PASSIVE? So much of today's investment advice boils down to this simple, and perhaps, overly simplistic, question: Should I pay for active management with the hopes of generating excess investment returns or instead "buy the benchmark" through a lower cost index fund? In the race for investment returns, a compelling case for index investing can be made, as compared to many active equity strategies.

However, in the U.S. small-cap equity asset class, the benchmark does not always provide the most compelling returns, as evidenced by the chart below. It shows that many, if not most, active managers in the U.S. small-cap asset class have outperformed the Russell 2000® Index over 3-, 5-, 10-, and 20-year time frames. Stating that, how these managers have achieved their excess returns, and the corresponding risk taken, can vary widely. Investors should pay close attention to how returns by active managers have been achieved over multiple time periods, focusing on the consistency of excess returns over time.



As of 6/30/2017. Data is obtained from FactSet Research Systems and is assumed to be reliable. The Small Cap Core Universe includes all managers categorized in the Small Cap Core asset class by eVestment. ***Past performance is no guarantee of future results.***

When comparing the returns of active managers to their benchmark, investors should review the underlying holdings in these portfolios. In our view, the quality of a portfolio's underlying businesses is a critical contributor to the consistency of investment performance. We believe that investing in quality businesses is an important contributor to capturing greater risk-adjusted returns, not just relative to the Russell 2000® Index, but to the overall equity market.

By focusing on companies with protected and differentiated business models, the Kayne Anderson Rudnick ("KAR") portfolio management team creates a portfolio of businesses that exhibit strong fundamental characteristics, such as a high return on equity and invested capital, low debt-to-capital, strong free cash flow, and consistent profitability. We believe these financial characteristics are strong indicators of a company's durability and competitive position within its industry.

Quality may seem like a secondary factor during periods when the U.S. equity markets are advancing in a consistent manner (as they did from 2009 to 2014). Quality companies will perform comparably during these periods. However, quality companies are typically standouts when equity markets correct. It's during these more difficult periods, when investors are looking for safety, that quality counts.

> Our mission is identifying the highest quality businesses in which to invest. Benchmarks, of course, are not built with the same discretion.

Profiting from well-run, profitable companies

TO GET A SENSE OF WHY QUALITY COUNTS, take a look at one of our actively managed investments: the KAR Small Cap Core strategy ("SCC"). It invests in the small company universe benchmarked to the Russell 2000® Index.

Our focus on quality gives SCC stronger fundamental characteristics and, subsequently, better risk and reward characteristics than both the benchmark small-cap universe and the larger market, as measured by the S&P 500® Index.

PERCENT OF UNPROFITABLE COMPANIES:

KAR SCC

0%

RUSSELL 2000®

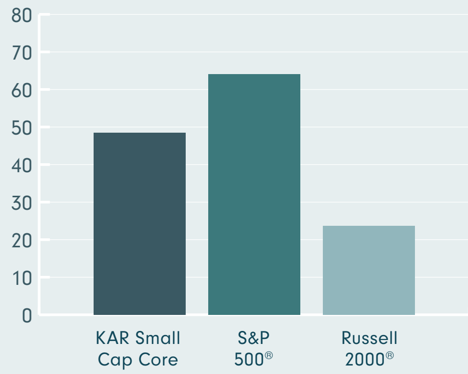
28%

Data as of June 30, 2017.
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.***

WHAT'S IN YOUR INVESTMENT PORTFOLIO?

HIGH-QUALITY STOCKS

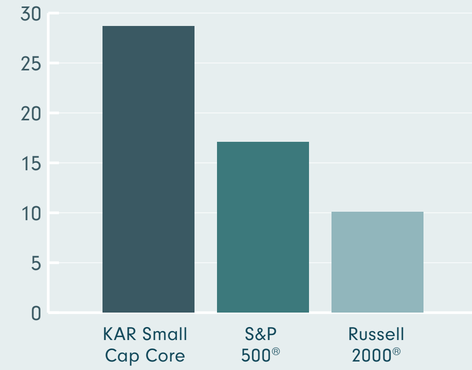
Percentage of holdings with S&P Quality Rankings of B+ or above



Getting the benefits of small company exposure, with the quality level of the larger market.

PROFITS

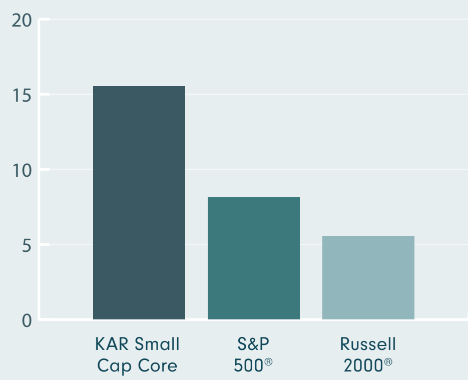
Five-year return on equity



Profitable companies produce better returns and are more likely to sustain in volatile markets.

DEBT COVERAGE

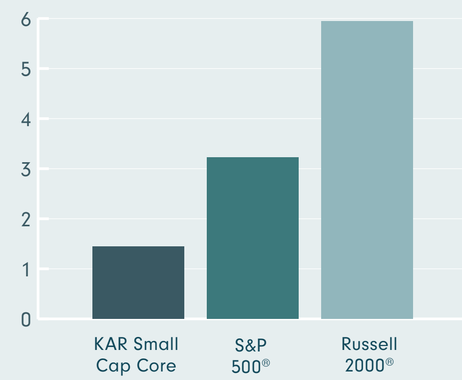
Interest coverage expense ratio



A higher interest coverage percentage means companies can more easily pay their debts in good times and bad.

DEBT

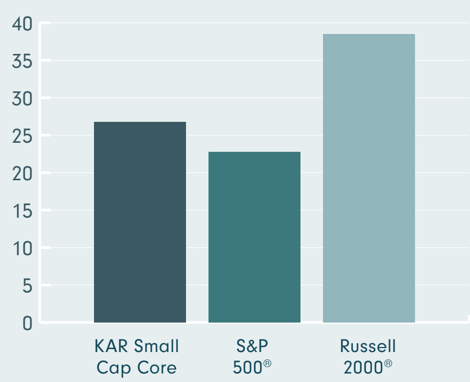
Total debt/EBITDA



Less debt translates to more free cash flow to fund future growth.

VALUE

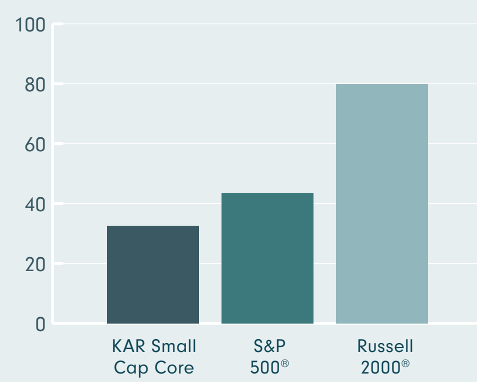
Trailing 12-month price-to-earnings ratio



Stocks with lower P/E ratios trade at a discount and have room to grow.

VOLATILITY OF EARNINGS

Earnings variance for the past 10 years



Lower earnings variance indicates companies have more predictable earnings over time.

Managing risk to keep investors on course

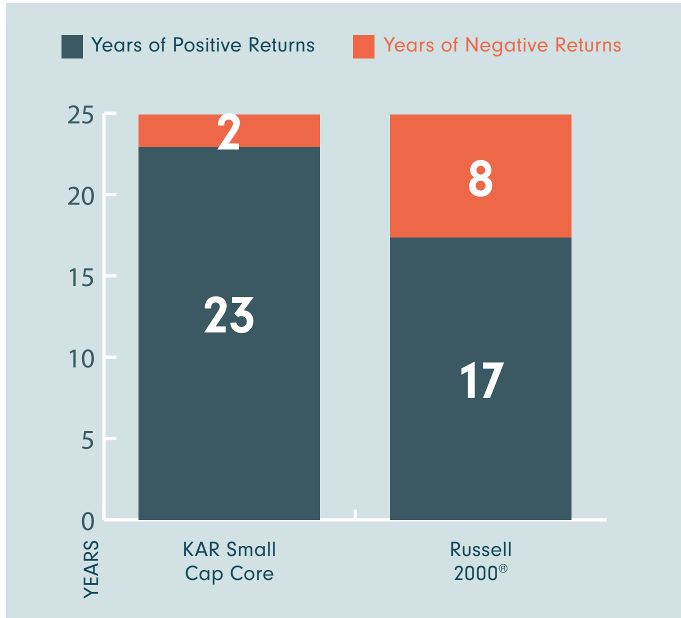
CAREFUL RISK MANAGEMENT is an important contributor to how the KAR Small Cap Core strategy has historically generated investment returns that have exceeded its benchmark. The small-cap equity asset class is known for its potential to deliver excess returns over large-cap stocks, but often with more risk. As quality investors of small-cap equities, the risk profile of SCC is closer to that of the S&P 500® Index of U.S. large-cap companies than the Russell 2000® Index of U.S. small-cap companies.

Investors often describe risk as the potential to lose money. Since its inception in 1992, SCC has experienced more calendar years of positive returns and fewer calendar years of negative returns, when compared to the Russell 2000® Index, as evidenced in the chart below. Further, in each of the two calendar year periods when SCC had a negative return, the strategy significantly outperformed the Russell 2000® Index. This translates to our clients having lost money, in a single calendar year, once every 10 years versus once every three years for the Russell 2000® Index.

BETA	
KAR Small Cap Core	0.72
S&P 500®	0.70
Russell 2000®	1.00
Lower beta indicates less volatility than the market as a whole.	

STANDARD DEVIATION	
KAR Small Cap Core	15.7
S&P 500®	15.3
Russell 2000®	19.5
Lower standard deviation indicates more consistent returns over time.	

Data presented is from the 4/1/1992 inception of the KAR Small Cap Core strategy through 6/30/2017. Data is obtained from FactSet Research Systems and is assumed to be reliable. ***Past performance is no guarantee of future results.***

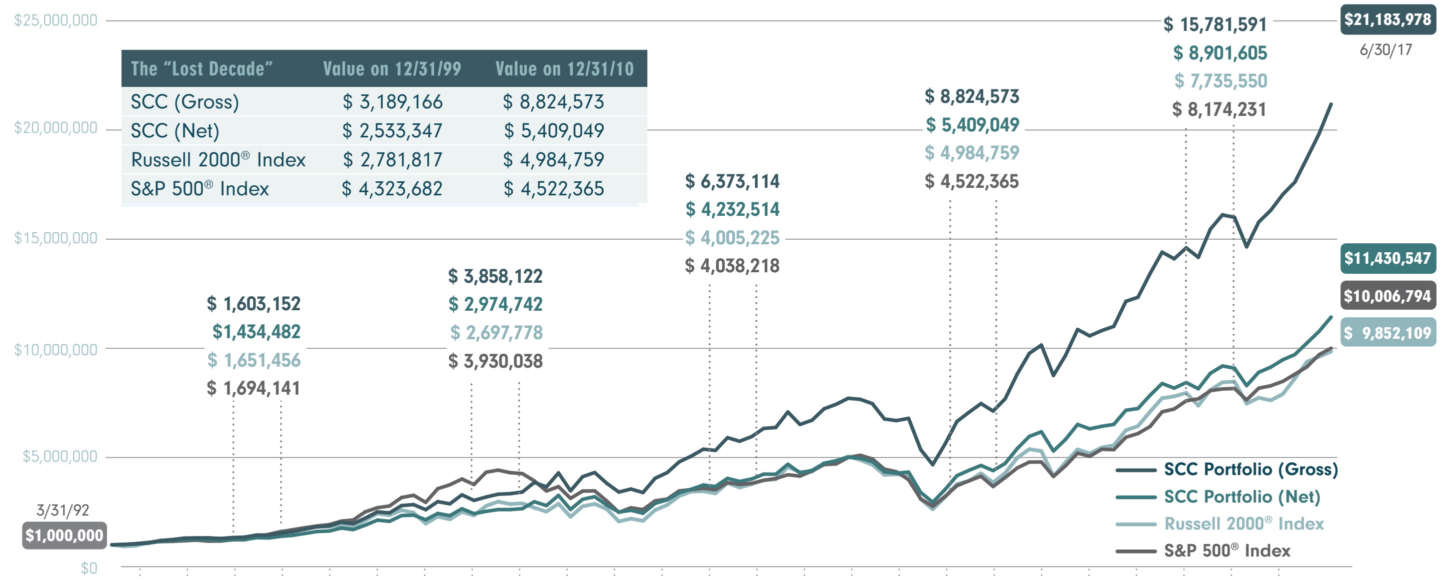


A concept in behavioral finance known as "prospect theory" tells us that investors feel the impact of negative returns more deeply than positive ones. At KAR, we strive to remain defensive in even the worst markets.

Unique performer, undeniable performance

IN THE END, all investors want an investment strategy that delivers returns. To get a sense of how SCC has achieved outperformance over the long term, consider how an investment of $1 million in 1992 would look today. Through bull runs and despite bear markets, dollars invested in SCC grew to more than double those invested in the Russell 2000® Index and double those invested in the S&P 500®.

KAYNE ANDERSON RUDNICK SMALL CAP CORE PORTFOLIO:
Growth of $1,000,000 vs. Indexes[1]



The "Lost Decade"	Value on 12/31/99	Value on 12/31/10
SCC (Gross)	$ 3,189,166	$ 8,824,573
SCC (Net)	$ 2,533,347	$ 5,409,049
Russell 2000® Index	$ 2,781,817	$ 4,984,759
S&P 500® Index	$ 4,323,682	$ 4,522,365

Returns (%)[2]	1992[3]	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
SCC (Gross)	9.65	20.00	2.75	18.57	26.98	21.00	20.98	7.02	20.98	6.82	-13.73	35.02	23.07	7.87	13.46	3.25	-28.15	31.80	24.83	9.64	13.75	30.89	7.31	2.09	18.55
SCC (Net)	7.25	16.54	-0.26	15.07	23.22	17.45	17.42	3.93	17.42	3.74	-16.34	31.19	19.42	4.63	11.87	1.71	-29.36	29.72	22.52	7.75	11.80	28.76	5.57	0.51	15.09
Russell 2000®	10.16	18.88	-1.82	28.45	16.49	22.36	-2.55	21.26	-3.02	2.49	-20.48	47.25	18.33	4.55	18.37	-1.57	-33.79	27.17	26.85	-4.18	16.35	38.82	4.89	-4.41	21.31
S&P 500®	10.41	10.08	1.32	37.58	22.96	33.36	28.58	21.04	-9.10	-11.89	-22.10	28.68	10.88	4.91	15.79	5.49	-37.00	26.46	15.06	2.11	16.00	32.39	13.69	1.38	11.96

> Instead of "active or passive?" investors would do well to ask themselves "high quality or low?"

[1]*Source: FactSet. Dollar values shown are as of December 31st of each year. Returns are calculated quarterly.*
[2]*Sources: SCC (Gross and Net)–Kayne Anderson Rudnick. Returns for the Kayne Anderson Rudnick composite are preliminary. For further details on the composite, please see the disclosure statement in this presentation. Indexes–FactSet. Negative performance years are highlighted in orange.*
[3]*Returns shown for 1992 represent nine months of performance only.*
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* ***S&P 500® Index*** *is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The indexes are calculated on a total return basis with dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.*
Past performance is not indicative of future results.

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 Core 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 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

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

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® Annual Return (%)	Internal Dispersion
2007	5,392	847	100%	39	3.25	1.71	(1.57)	0.21
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	1,073	100%	71	13.75	11.80	16.35	0.31
2013	7,841	1,336	100%	67	30.89	28.76	38.82	0.45
2014	7,989	1,294	100%	70	7.31	5.57	4.89	0.27
2015	8,095	1,023	100%	55	2.09	0.51	(4.41)	0.38
2016	9,989	1,222	100%	74	18.55	15.09	21.31	0.91

**Pure gross returns are supplemental to net returns.*

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 strategy 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 strategy 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.*