



Kayne Anderson Rudnick
Investment Management

Small Cap Quality Value Portfolio
Managed Accounts
Third Quarter 2018 Review

kayne.com

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Firm Overview

As of September 30, 2018



Kayne Anderson Rudnick
Investment Management

Profile

- Originally established to manage founder capital
- Over three decades of experience
- A differentiated “business analyst” investment approach focusing on high-quality businesses
- A disciplined and repeatable investment process that produces high-conviction portfolios
- A wholly owned, independent subsidiary of Virtus Investment Partners

At a Glance

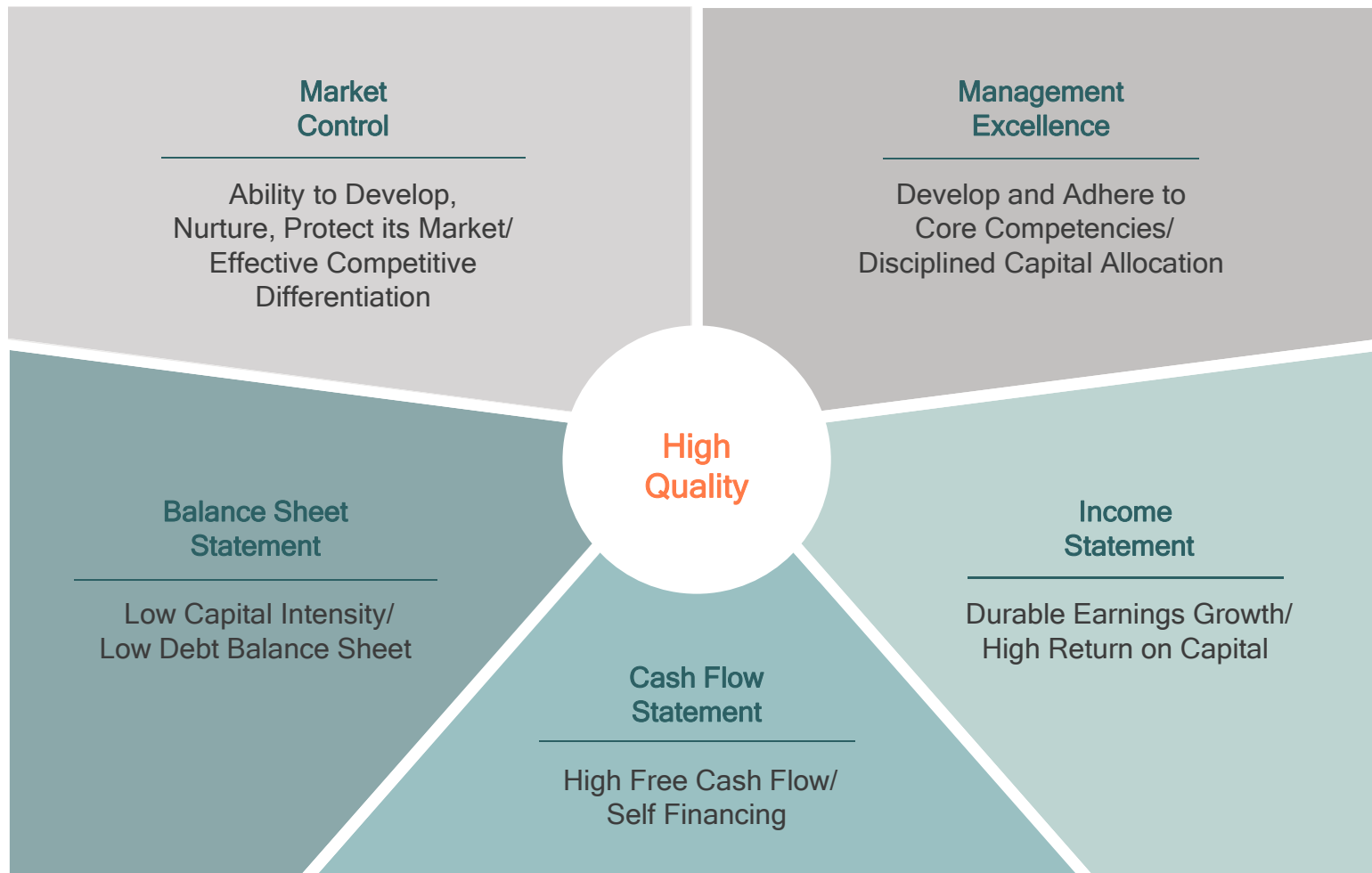
Year Founded	1984
Headquarters	Los Angeles, CA
AUM	\$26.8 billion
Number of Investment Professionals	17
Average Investment Experience	15 Years

Investment Philosophy

We believe that purchasing high-quality businesses with competitive protections at attractive valuations will achieve excess returns over a complete market cycle

Investment Objectives

- To achieve a return meaningfully above that of the Russell 2000® Value Index
- To achieve this return objective with a portfolio that exhibits lower overall risk characteristics



How Are We Different?

We Manage Risk and Generate Returns Differently



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	CLASSIC APPROACH	KAR APPROACH
RISK	<p>stock portfolio 75</p> <p>1% to 2% positions</p> <p> 7 years of negative returns since 1998</p> <p>No stock can help or hurt more than 2%</p>	<p>stock portfolio 20-35</p> <p>3% to 10% positions in high-quality companies</p> <p> Minimal business risk</p> <p> Minimal balance sheet risk</p> <p> Minimal profit risk</p> <p> 3 years of negative returns since 1998</p>
RETURNS	Average companies producing average returns on capital	Exceptional companies producing exceptional returns on capital
	Buying cheap and selling dear required for above-average portfolio returns	Buy at attractive price and let exceptional returns on capital drive exceptional growth and income over extended period of time
	6 months average holding period	36 to 60 months average holding period, but often longer
	High frictional costs due to RAPID trading	Low frictional costs due to LESS trading
	Poor tax efficiency due to short holding periods	Inherent tax efficiency

Small Cap Quality Value Team

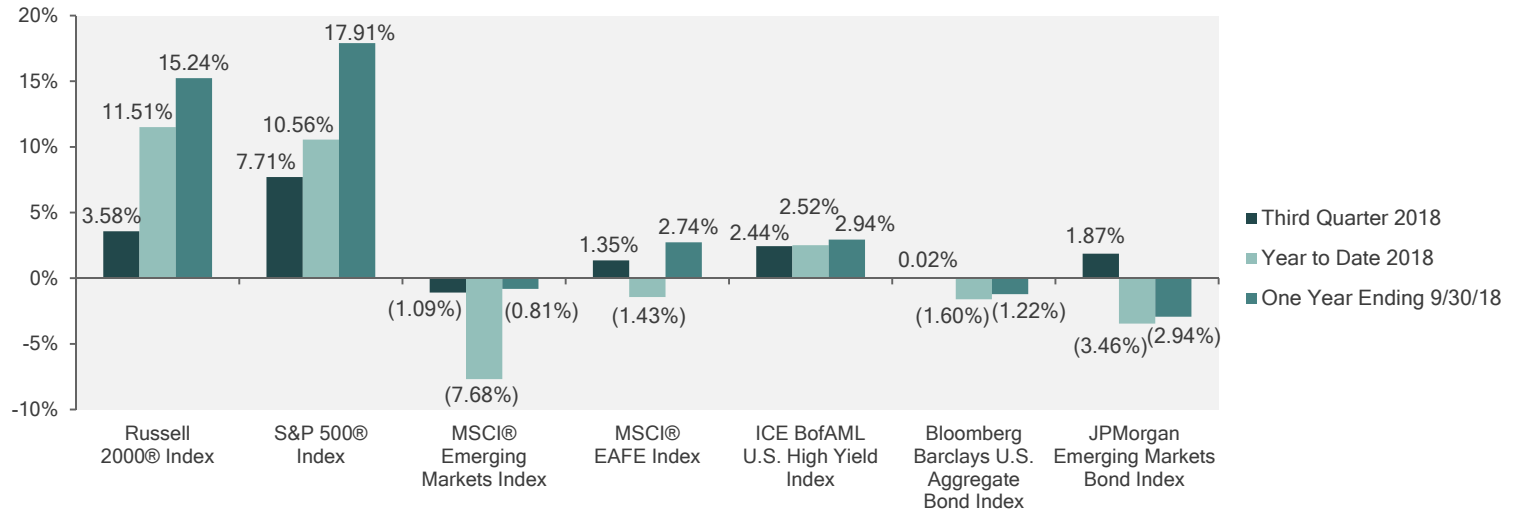


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Portfolio Manager/Analysts	Responsibility	Research Experience	Years with KAR
Douglas S. Foreman, CFA	Chief Investment Officer	32 Years	7 Years
Julie Kutasov	Portfolio Manager & Senior Research Analyst Sector Coverage: Materials and Processing	17 Years	17 Years
Craig Stone	Portfolio Manager & Senior Research Analyst Sector Coverage: Producer Durables	29 Years	18 Years
Todd Beiley, CFA	Senior Research Analyst Sector Coverage: Energy and Consumer Discretionary	19 Years	16 Years
Julie Biel, CFA	Senior Research Analyst Sector Coverage: Technology	10 Years	5 Years
Jon Christensen, CFA	Senior Research Analyst Sector Coverage: Health Care	23 Years	17 Years
Chris Wright, CFA	Senior Research Analyst Sector Coverage: Financials	8 Years	6 Years
Sean Dixon	Research Analyst Sector Coverage: Consumer Discretionary and Producer Durables	9 Years	<1 Year
Adam Xiao, CFA	Research Analyst Sector Coverage: Consumer Staples, Financials and Producer Durables	3 Years	<1 Year
Jordan Greenhouse	Portfolio Specialist	21 Years [†]	2 Years

[†]Represents years of industry experience.

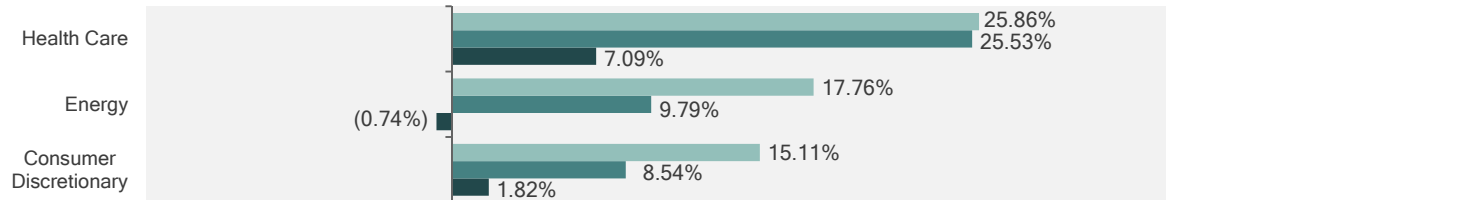
Index Performance



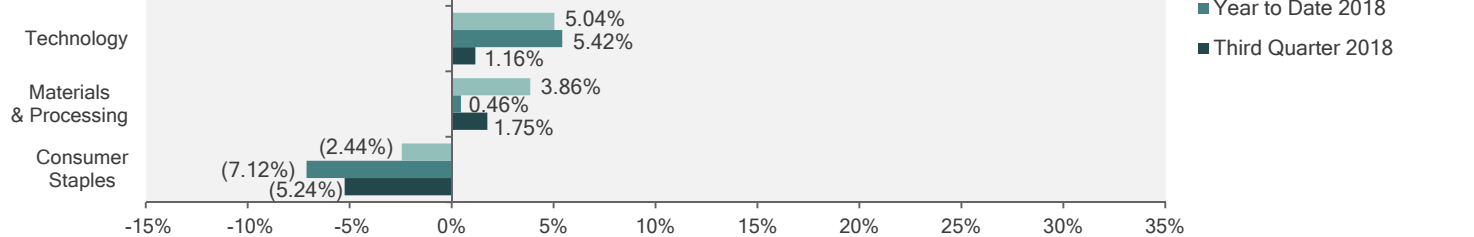
Sector Performance

Russell 2000® Value Index

Top Performers



Bottom Performers



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Data is obtained from FactSet Research Systems and is assumed to be reliable. Past performance is no guarantee of future results.

Market Review

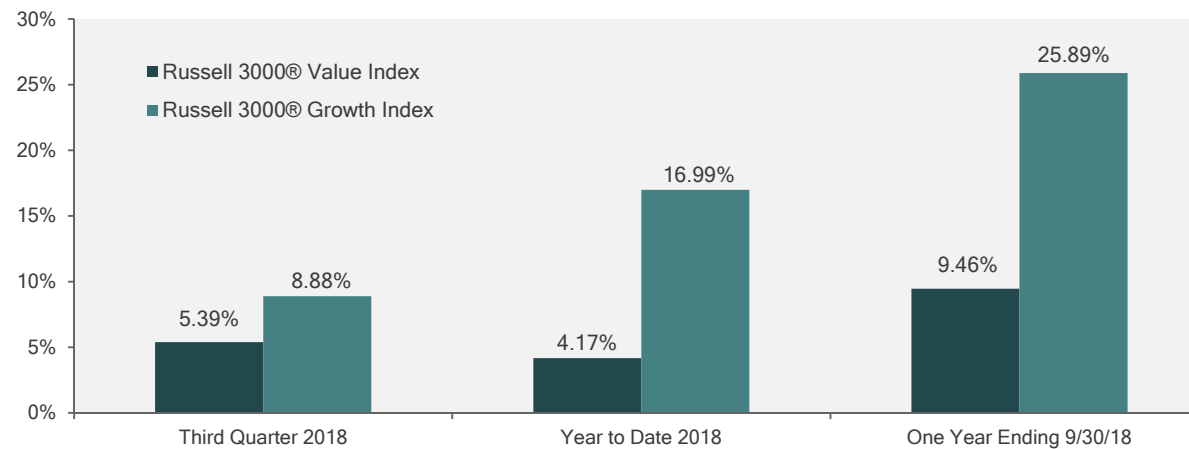
Performance by Style and Quality



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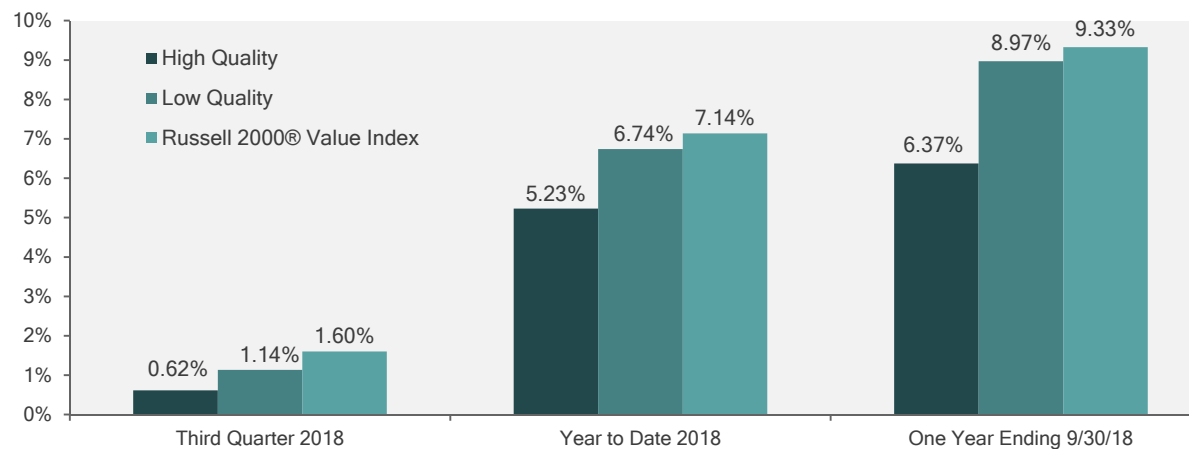
Performance by Style

Russell 3000® Value Index vs. Russell 3000® Growth Index



Performance by Quality

Russell 2000® Value Index



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High Quality is defined as all stocks with an S&P Quality Ranking of B+ and above. Low Quality is defined as all stocks with an S&P Quality Ranking of B and below.

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Quarterly Performance Overview

Small Cap Quality Value Portfolio
Periods Ending September 30, 2018



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Monthly, Quarterly and Year to Date Performance

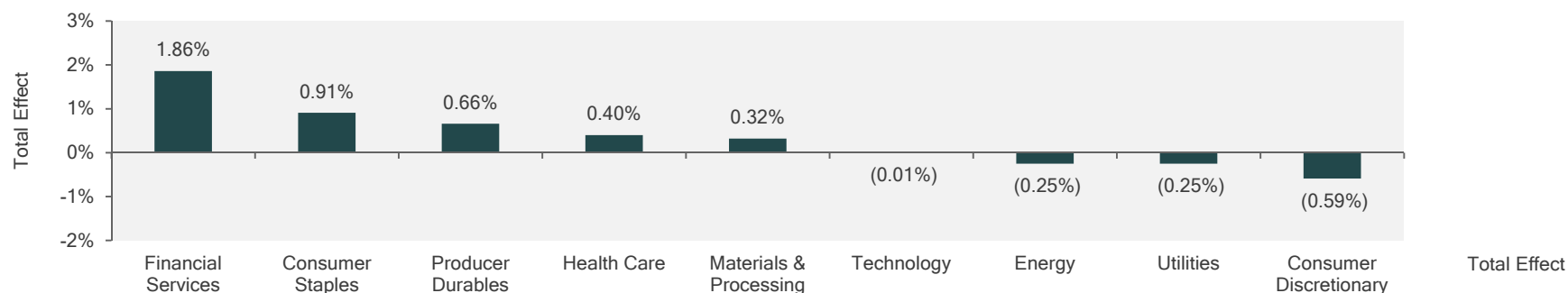
	Gross (%)	Net (%)	Index (%)	Excess Returns (bps)
July	3.56	3.31	1.77	179
August	3.67	3.42	2.38	129
September	(2.59)	(2.84)	(2.48)	(10)
Third Quarter	4.59	3.84	1.60	298
Year to Date	4.49	2.19	7.14	(264)

Contributors

Highest	Contribution
Jack Henry & Associates	+0.76%
Primerica	+0.72%
RBC Bearings	+0.71%
Lowest	Contribution
RE/MAX Holdings	(0.52%)
SiteOne Landscape Supply	(0.50%)
Thor Industries	(0.46%)

Attribution by Sector

Quarter Ending September 30, 2018



	Financial Services	Consumer Staples	Producer Durables	Health Care	Materials & Processing	Technology	Energy	Utilities	Consumer Discretionary	Total Effect
Russell 2000® Value Returns	0.21%	(5.24%)	5.09%	7.09%	1.75%	1.16%	(0.74%)	5.81%	1.82%	1.60%
KAR Returns	5.10%	12.16%	10.48%	31.81%	4.54%	0.06%	(7.78%)	0.00%	(1.17%)	4.59%
KAR Selection Effect	1.82%	1.24%	0.62%	0.51%	0.29%	(0.03%)	(0.31%)	0.00%	(0.60%)	3.53%
KAR Allocation Effect	0.04%	(0.33%)	0.05%	(0.11%)	0.03%	0.02%	0.07%	(0.25%)	0.01%	(0.48%)

This material is deemed supplemental and complements the performance and disclosure at the end of this presentation.

Attribution data is based upon a representative portfolio. Individual results may vary.

Returns for the Kayne Anderson Rudnick composite are preliminary. All periods less than one year are total returns and are not annualized. For further details on the composite, please see the disclosure statement in this presentation. Data is obtained from 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.

Annual Performance Overview

Small Cap Quality Value Portfolio

Periods Ending September 30, 2018



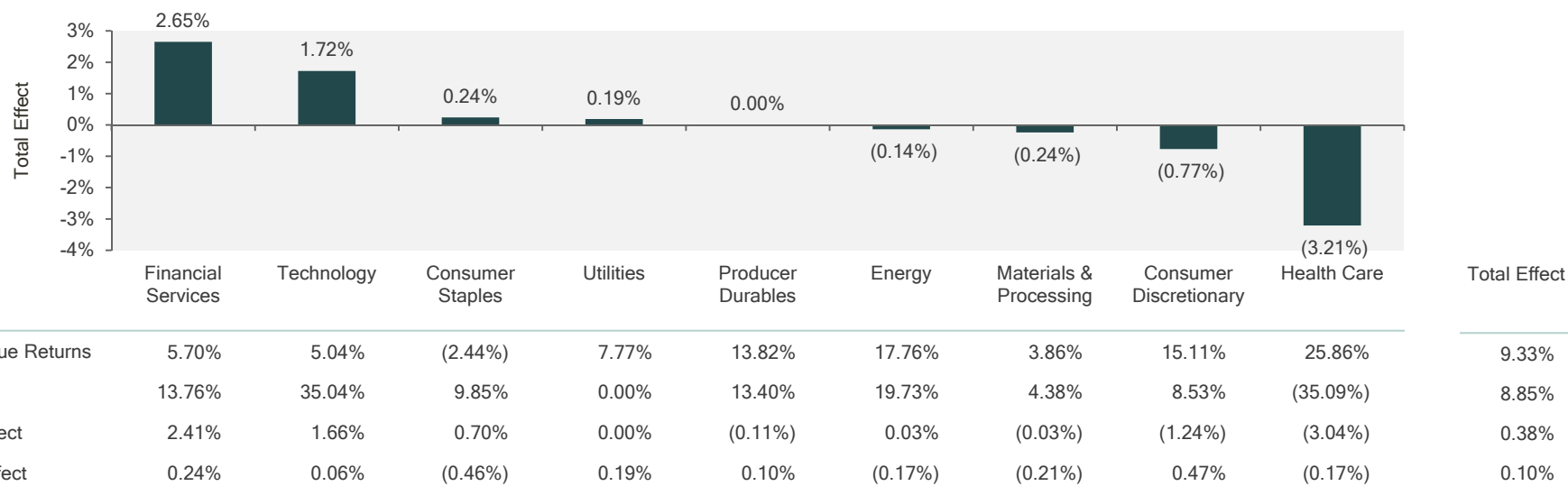
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Quarterly and Annual Performance

	Gross (%)	Net (%)	Index (%)	Excess Returns (bps)
Fourth Quarter 2017	4.17	3.40	2.05	213
First Quarter 2018	(1.92)	(2.67)	(2.64)	72
Second Quarter 2018	1.86	1.11	8.30	(644)
Third Quarter 2018	4.59	3.84	1.60	298
1 Year Ending 9/30/18	8.85	5.67	9.33	(47)

Attribution by Sector

One Year Ending September 30, 2018



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Highest Contributors

Small Cap Quality Value Portfolio

One Year Ending September 30, 2018



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Security	Contribution	Comments
Jack Henry & Associates	+1.59%	Over the past 12 months Jack Henry has reported strong revenue growth from new core processing implementations and further adoption of the company's payment solutions. Guidance for the next fiscal year calls for high-single-digit revenue growth and double-digit EPS growth. Given the high switching costs inherent in Jack Henry's services, as well as the opportunity to continue to grow its business, we remain shareholders of the company.
SiteOne Landscape Supply	+1.53%	SiteOne continues to consolidate the industry and has seen accelerating growth in organic daily sales. With the increased scale for the company and initiatives such as improving supply chain, SiteOne has been able to expand gross margins, which we expect could translate into improving operating margins over time. The company only has a 10% share of the entire wholesale landscape market and should have plenty of runway for growth and further margin leverage.
Primerica	+1.48%	Throughout the last 12 months, Primerica grew its revenue by double digits by continuing to grow its life-insurance sales force while maintaining productivity and by increasing the amount of investment and savings products sold. We continue to view Primerica's low-cost distribution as an advantage that allows it to target an under-served audience and remain owners of the business.

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A complete list of portfolio holdings and specific securities transactions for the preceding 12 months is available upon request. Holdings are subject to change. All information is provided for informational purposes only and should not be deemed as a recommendation to purchase the securities mentioned. Kayne Anderson Rudnick has chosen to review the securities in this document based upon objective criteria. It should not be assumed that securities recommended in the future will be profitable. Data is obtained from FactSet Research Systems and is assumed to be reliable. Past performance is no guarantee of future results.

Lowest Contributors

Small Cap Quality Value Portfolio

One Year Ending September 30, 2018



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Security	Contribution	Comments
Thor Industries	(1.41%)	Thor shares have come under pressure due to industry fears of a top in the current RV cycle. Industry participants point to both increased inventories at dealers and reduced volume of unit sales as cause for concern. Thor's revenues are up over the trailing-12-month period, but quarterly financials have been weaker. In conjunction with an increase in dealer inventory and a decrease in Thor's order backlog, the company has added manufacturing capacity, which is likely to influence ordering patterns from dealers as Thor possesses the capacity to more aptly respond to demand. While Thor does operate in a cyclical industry, the competitive dynamics and positioning of the company remain intact.
RE/MAX Holdings	(1.39%)	RE/MAX shares declined due to weak existing-home sales trends and higher costs the company is incurring to build out technology infrastructure.
Anika Therapeutics	(1.27%)	Anika saw its shares falter in the last year despite solid sales growth from its MONOVISC and ORTHOVISC products. Two particular issues have created weakness: One was related to a voluntary product recall that should be resolved by year's end, and the other was the notification from the FDA that the company's CINGAL product did not show strong results in phase-3 trials.

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Purchases and Sales

Small Cap Quality Value Portfolio

Quarter Ending September 30, 2018



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- There were no purchases or sales during the 3rd Quarter.

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Portfolio Characteristics

Higher Quality, Stronger, More Consistent Growth, & Better Value
Small Cap Quality Value Portfolio – As of September 30, 2018



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	KAR Small Cap Quality Value	Russell 2000® Value Index
Quality		
Return on Equity—Past 5 Years	20.9%	7.9%
Total Debt/EBITDA	1.7 x	6.1 x
Earnings Variability—Past 10 Years	28.7%	81.9%
Growth		
Earnings Per Share Growth—Past 5 Years	8.5%	6.2%
Earnings Per Share Growth—Past 10 Years	10.5%	6.8%
Dividend Per Share Growth—Past 5 Years	7.5%	6.6%
Dividend Per Share Growth—Past 10 Years	11.7%	4.6%
Capital Generation—{ROE x (1-Payout)}	10.9%	5.6%
Value		
P/E Ratio—Trailing 12 Months	23.9 x	24.1 x
Dividend Yield	1.7%	1.9%
Free Cash Flow Yield†	3.8%	2.7%
Market Characteristics		
\$ Weighted Average Market Cap—3-Year Average	\$3.2 B	\$1.9 B
Largest Market Cap—3-Year Average	\$8.4 B	\$7.2 B
Annualized Standard Deviation—Since Inception*	17.7%	19.4%

In a market of average businesses, we own protected proprietary businesses that generate exceptional returns on shareholders' capital without employing significant debt.

In a market of cyclical businesses requiring growth capital from fickle markets, we own companies producing self-funded strong, consistent growth sustainable into the future.

And we are able to achieve this high quality and strong growth at a discount valuation to the market.

*Actual inception date is June 1, 1998. July 1, 1998 is used for calculation purposes of quarterly information.

†Free cash flow data is as of June 30, 2018. Prices are as of September 30, 2018. Excludes financials.

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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.

Market Outlook

U.S. Economy

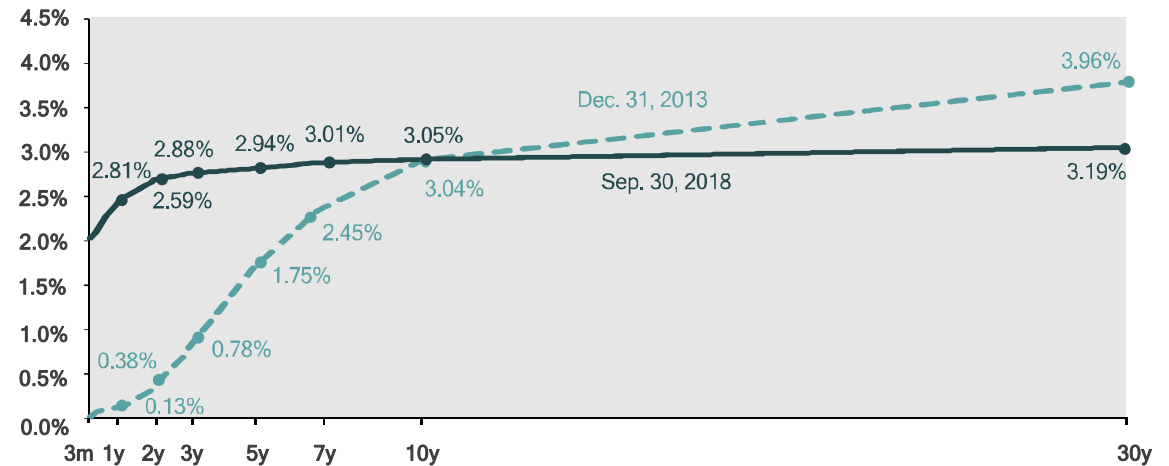


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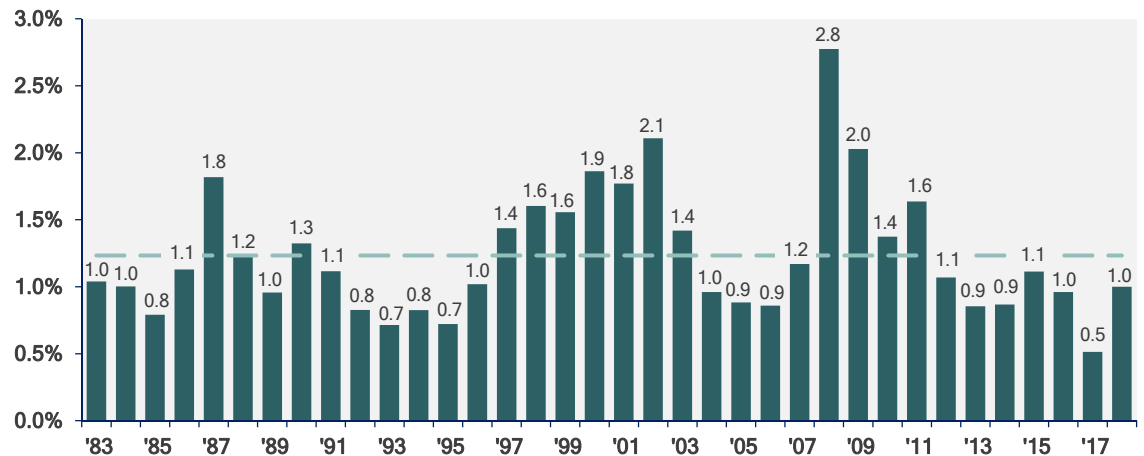
The U.S. economy should accelerate modestly. International economies have decelerated, possibly due to trade concerns.

- The economy has accelerated over the last couple of quarters to above 3% GDP growth. 2018 growth should stabilize in the 2.5% to 3.5% GDP range.
- The Fed has raised short-term interest rates. However, the yield curve flattening will make future increases harder to attain for the Federal Reserve.
- Mid-term elections may create some short-term volatility in markets, but usually there is no meaningful long-term impact.
- Energy, materials and industrials are out of a recession and should continue to improve in 2018. Trade war threats are threatening to slow this recovery.
- Tax reform is undoubtedly a positive for corporate America, but the impact may be more uneven by industry/company than many analysts are assuming. Merger and acquisition activity has been picking up since the announced changes.
- Volatility is rising from extremely low levels and was the catalyst for a correction in equities back in February.
- Innovation and disruption is continuing at a breathtaking pace in the U.S. in a variety of industries, creating clear winners and losers in many industries. Stock picking is key.

Yield Curve
U.S. Treasury Yield Curve



Volatility Reverting Back to the Long-term Mean
S&P 500® Average Daily Trading Range



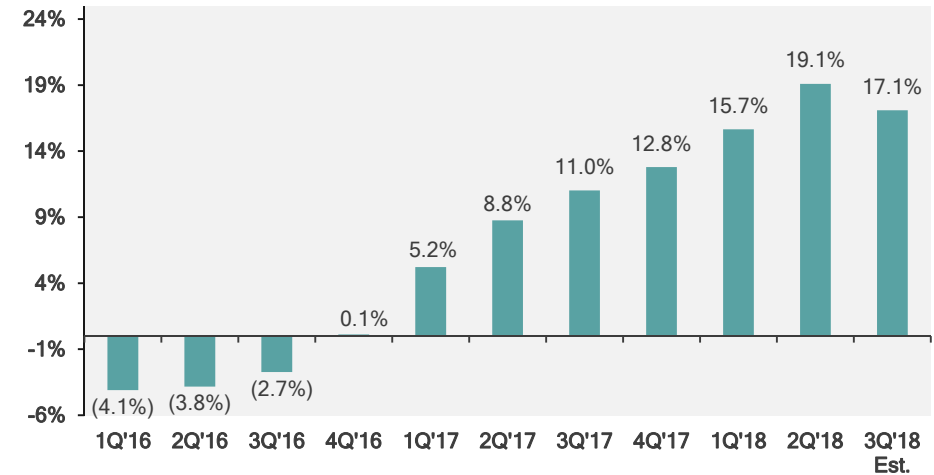
Data as of September 30, 2018.

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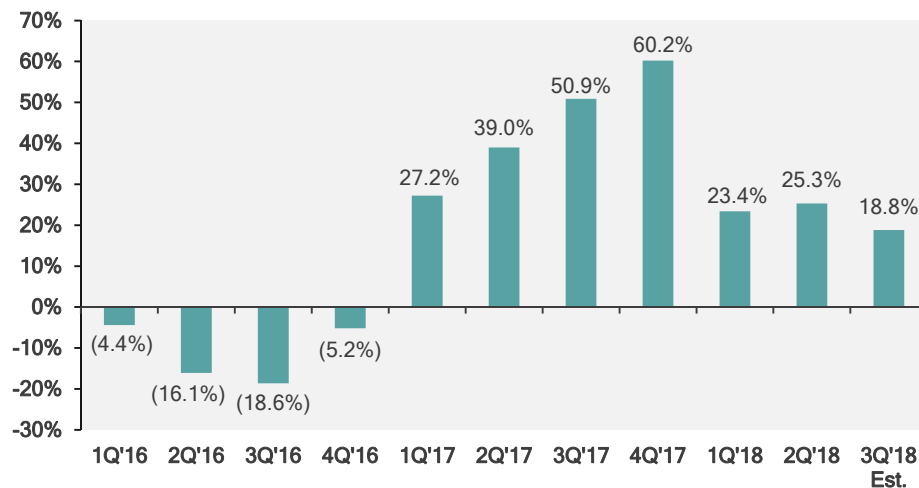
Global growth prospects have not improved as much as expected this year primarily due to trade conflicts.

- Global earnings growth has been steadily improving since last fall for the first time since the great recession. However, Europe and Emerging Markets economies have not picked up materially this year.
- Trade concerns have grown globally but we believe they will ultimately be favorably resolved. Emerging markets and international stocks have been hit hard by trade concerns.
- Global inflation expectations are still very benign, but is picking up somewhat. Global competition, oil prices and modest wage growth are the key drivers behind this longer-term.

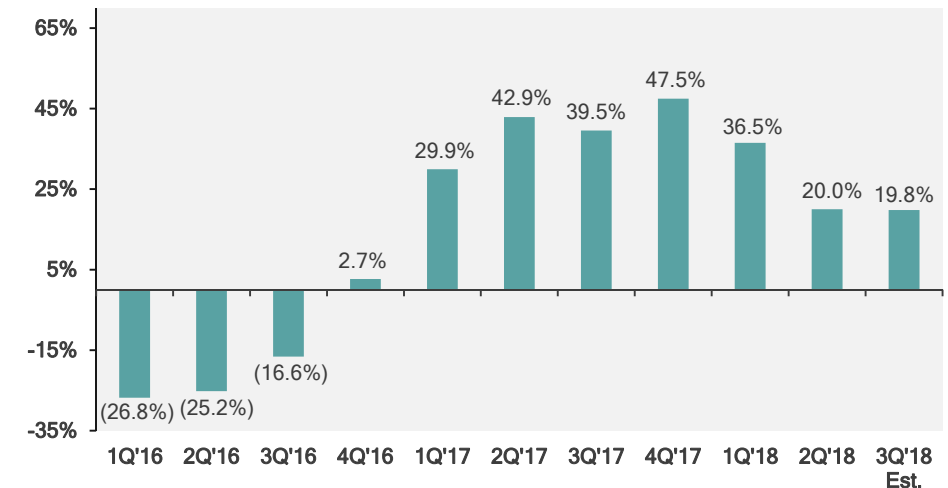
S&P 500® Trailing 12-Month Earnings Growth (Year Over Year)



Nikkei 225 Trailing 12-Month Earnings Growth (Year Over Year)



STOXX 600 Trailing 12-Month Earnings Growth (Year Over Year)



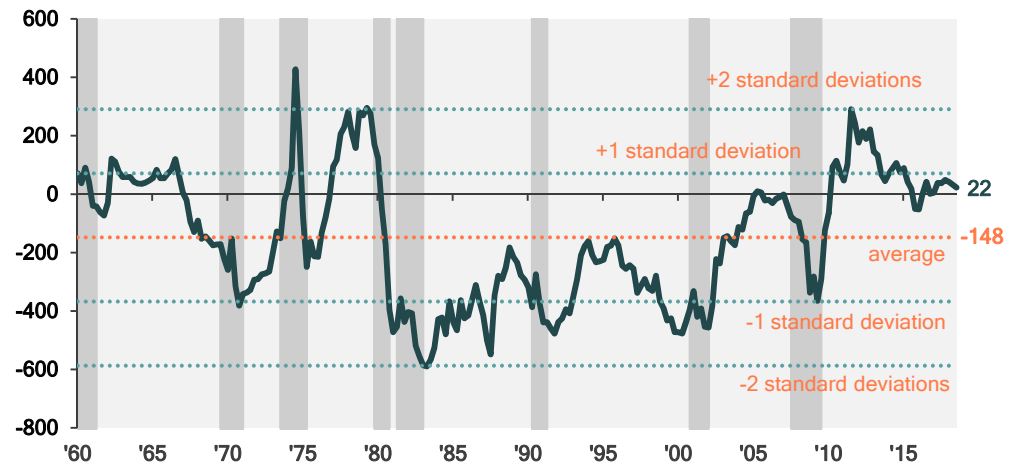
Data as of September 30, 2018.

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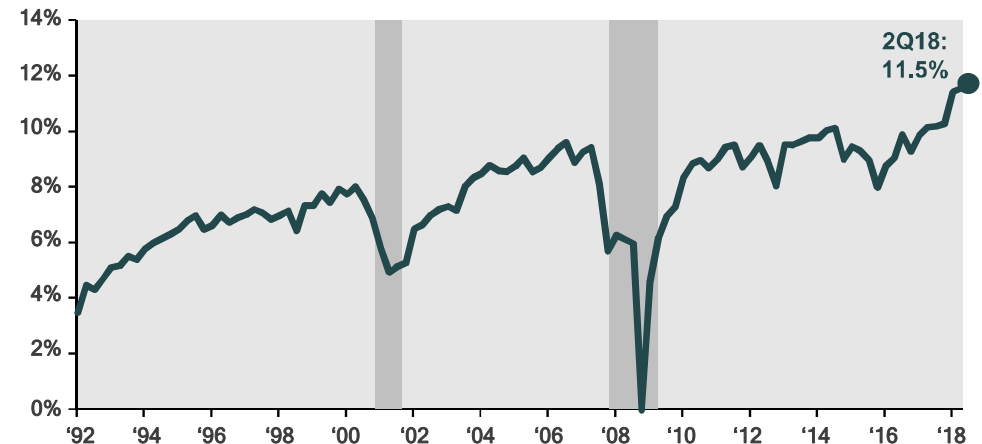
We continue to believe that the risk/reward ratio for equities over the long term is favorable on an absolute basis and particularly relative to fixed income.

- There is potential for P/E ratios to improve slightly from current levels. Retail investors still are not fully engaged in the equity market.
- Equity valuations remain reasonable by historic measures, both on absolute levels but particularly relative to interest rates.
- Foreign markets are finally supporting U.S. EPS growth rates, particularly for large multinationals, but trade concerns are starting to threaten this.
- With favorable corporate cash flow, investors are being rewarded with increased share buybacks, dividends and acquisitions.
- Corporate profit margins are still being maintained at very high historical levels, despite a much tighter labor market.
- Due to tax reform, we believe high-quality businesses with protected markets are a better place to invest than lower quality companies operating in more competitive markets which will pass on these savings to their customers eventually.
- Investors should expect more modest equity returns going forward (6% to 8% range over time) based on the maturity of this economy and business cycle. Volatility will likely pick up, but we believe the longer term outlook is still favorable.

S&P 500® Equity Risk Premium
Earnings Yield Less Baa Corporate Bond Yield (bps)



S&P 500® Profit Margins
Quarterly Operating Earnings Per Share/Sales Per Share



Data as of September 30, 2018.

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- **Portfolio Data**
- **Disclosure**

Sector Weights

Small Cap Quality Value Portfolio

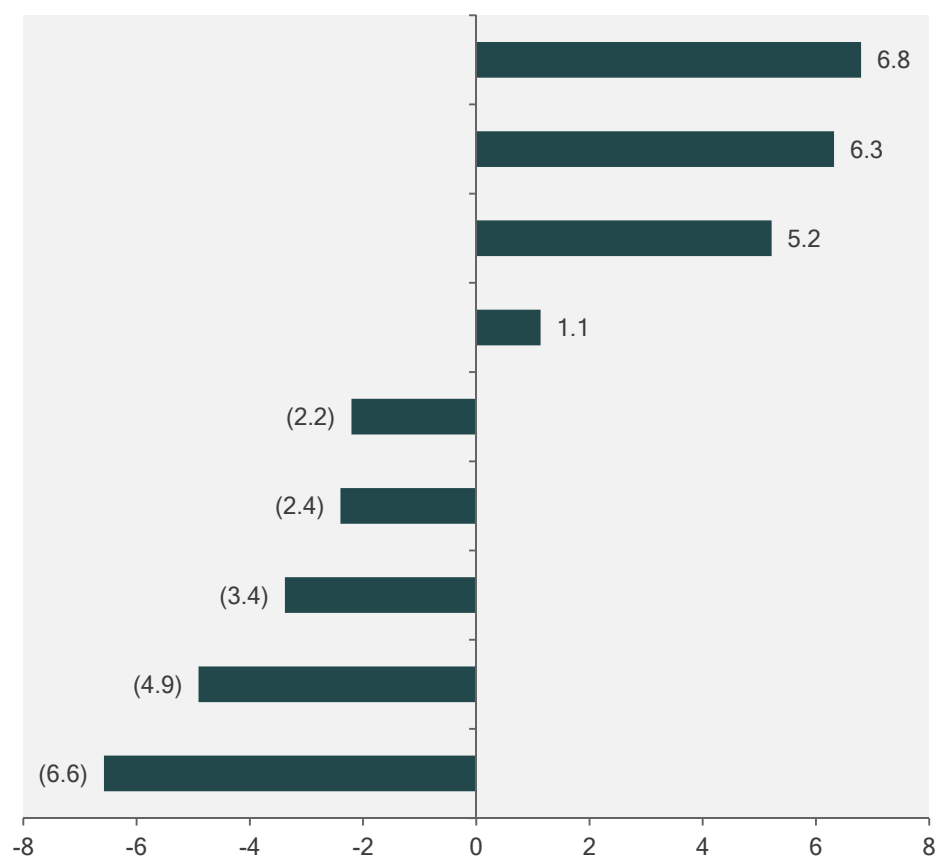
As of September 30, 2018



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Sectors	KAR Small Cap Quality Value (%)	Russell 2000® Value Index (%)
Consumer Discretionary	18.9	12.1
Materials & Processing	12.2	5.8
Consumer Staples	7.5	2.3
Producer Durables	12.8	11.7
Health Care	2.7	4.9
Financial Services	37.3	39.7
Energy	4.0	7.4
Technology	4.6	9.5
Utilities	—	6.6

Underweight/Overweight (%)



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Conviction-Driven Investing Provides Opportunities for Excess Return

Small Cap Quality Value Portfolio

As of September 30, 2018



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Top 10 Holdings	Russell Sector	% of Portfolio
Cheesecake Factory	Consumer Discretionary	4.9
RBC Bearings	Materials & Processing	4.9
National Beverage	Consumer Staples	4.8
MGM Growth Properties	Financial Services	4.8
SiteOne Landscape Supply	Consumer Discretionary	4.6
Jack Henry & Associates	Financial Services	4.0
Core Laboratories	Energy	4.0
Primerica	Financial Services	4.0
Scotts Miracle-Gro	Materials & Processing	3.9
Badger Meter	Producer Durables	3.9
Total		43.8

Research confidence leads to large active weights

	KAR Small Cap Quality Value	Russell 2000® Value Index
# of Holdings	29	1,387
Average Position Size (%)	3.4	0.1
Weight of Top Ten Holdings (%)	43.8	4.1
Active Share (%)	99.7	—

The strategy benefits from diversification while still taking significant active positions

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Strong Risk-Adjusted Returns

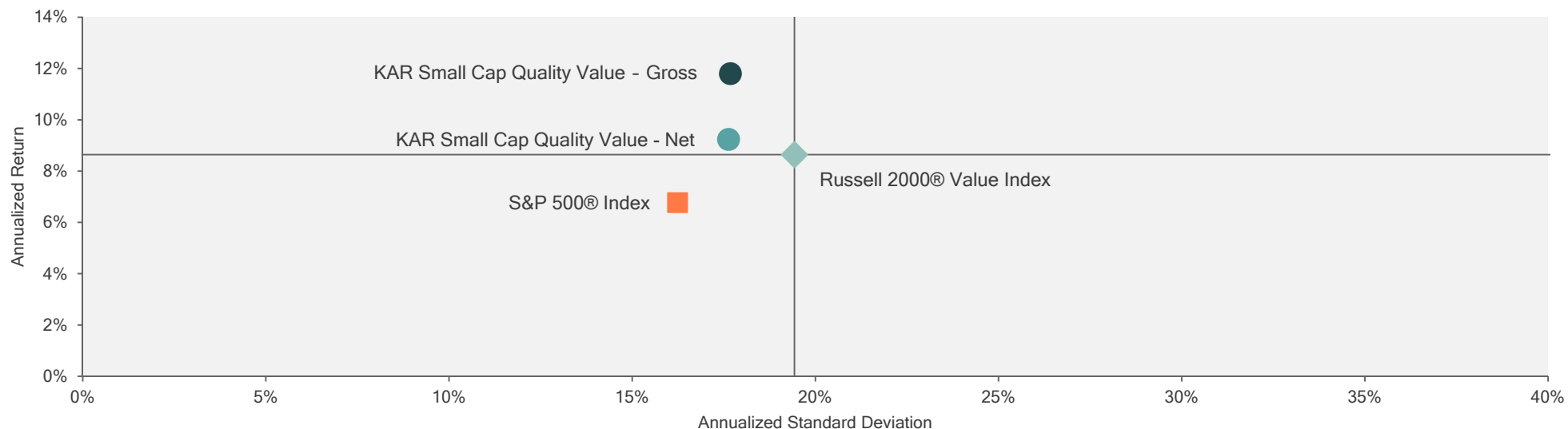
Small Cap Quality Value Portfolio
Inception* to September 30, 2018



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Meaningful Excess Return with Lower Volatility

Annualized Since Inception*



Strong Risk-Adjusted Performance Metrics

Annualized Since Inception*

	Alpha	Sharpe Ratio	Standard Deviation	Semi-Standard Deviation	Beta	Tracking Error
KAR Small Cap Quality Value	4.19	0.56	17.68	12.73	0.81	8.77
Russell 2000 Value Index	0.00	0.35	19.43	14.70	1.00	0.00

*Actual inception date is June 1, 1998. July 1, 1998 is used for calculation purposes of quarterly information.

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Returns

Small Cap Quality Value Portfolio



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Annualized Performance

Periods Ending 9/30/18	Gross (%)	Net (%)	Index (%)	Excess Return (bps)
Third Quarter	4.59	3.84	1.60	298
Year to Date	4.49	2.19	7.14	(264)
1 Year	8.85	5.67	9.33	(47)
3 Years	18.53	15.21	16.12	240
5 Years	12.43	9.83	9.91	252
7 Years	15.68	13.25	15.26	41
10 Years	13.12	10.87	9.52	360
Since Inception*	11.80	9.27	8.57	323

Calendar Year Performance

Periods Ending 12/31	Gross (%)	Net (%)	Index (%)	Excess Return (bps)
2017	19.67	16.18	7.84	1183
2016	26.17	22.50	31.74	(557)
2015	(0.27)	(1.80)	(7.47)	720
2014	2.51	0.85	4.22	(170)
2013	40.00	37.83	34.52	548
2012	10.01	8.32	18.05	(805)
2011	6.73	4.58	(5.50)	1223
2010	24.75	22.81	24.50	25
2009	27.82	25.92	20.58	724
2008	(28.62)	(29.99)	(28.92)	30
2007	1.93	0.27	(9.78)	1171
2006	23.72	21.87	23.48	24
2005	8.53	5.31	4.71	382
2004	27.59	23.80	22.25	535
2003	22.12	18.59	46.03	(2391)
2002	0.48	(2.52)	(11.43)	1191
2001	19.42	16.06	14.02	540
2000	24.92	21.28	22.83	210
1999	(7.69)	(10.39)	(1.49)	(620)
1998†	9.61	7.99	(10.93)	2054

*June 1, 1998

†Performance calculations are for the seven months ended December 31, 1998.

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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.

Disclosure

Small Cap Quality Value Portfolio



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Investment Management

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, 2017.

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 Quality Value Wrap Composite has been examined for the period from January 1, 1999 through December 31, 2017. 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 Quality Value Wrap Portfolios. Small Cap Quality Value Wrap Portfolios are invested in equity securities with capitalizations consistent with the Russell 2000® Value 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® Value Index. The Russell 2000® Value Index is a market capitalization-weighted index of value-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 January 2002. 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 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 after 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	16.04	20.17
2013	14.24	16.05
2014	12.88	12.98
2015	13.64	13.65
2016	14.09	15.72
2017	12.22	14.17

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® Value Index Annual Return (%)	Internal Dispersion
2008	3,445	441	100%	33	(28.62)	(29.99)	(28.92)	0.73
2009	4,010	531	100%	34	27.82	25.92	20.58	0.55
2010	4,729	651	100%	38	24.75	22.81	24.50	0.75
2011	5,232	478	100%	36	6.73	4.58	(5.50)	0.33
2012	6,545	622	100%	31	10.01	8.32	18.05	0.43
2013	7,841	637	100%	27	40.00	37.83	34.52	0.42
2014	7,989	648	100%	26	2.51	0.85	4.22	0.43
2015	8,095	624	100%	24	(0.27)	(1.80)	(7.47)	0.32
2016	9,989	641	100%	26	26.17	22.50	31.74	0.55
2017	14,609	766	100%	28	19.67	16.18	7.84	1.67

*Pure gross returns are supplemental to net returns.

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