



Kayne Anderson Rudnick
Investment Management

Small Cap Quality Value Portfolio
Managed Accounts
Second Quarter 2017 Review

kayne.com

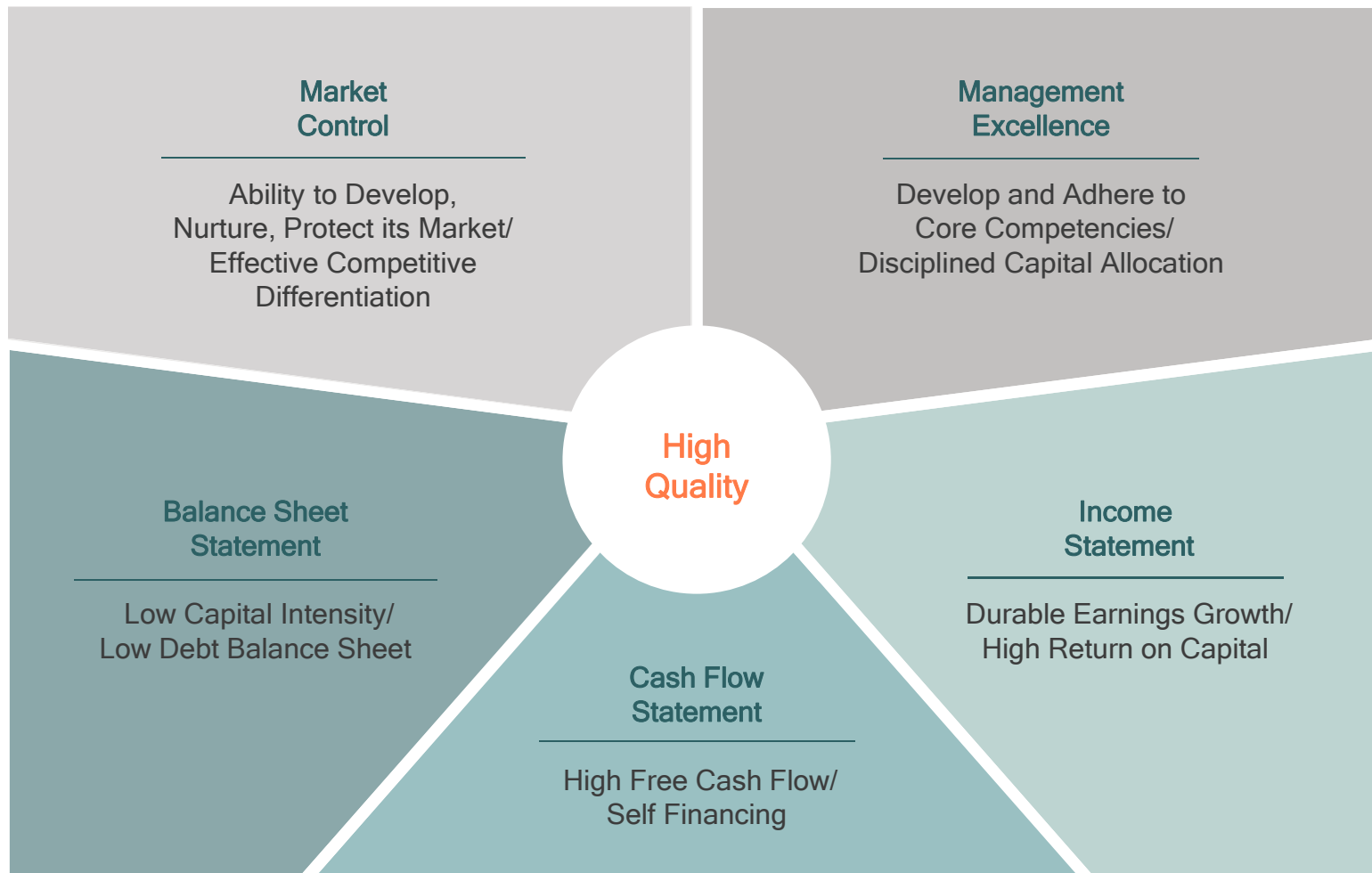
1800 Avenue of the Stars, 2nd Floor Los Angeles, CA 90067 T 800.231.7414

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



Small Cap Quality Value Team

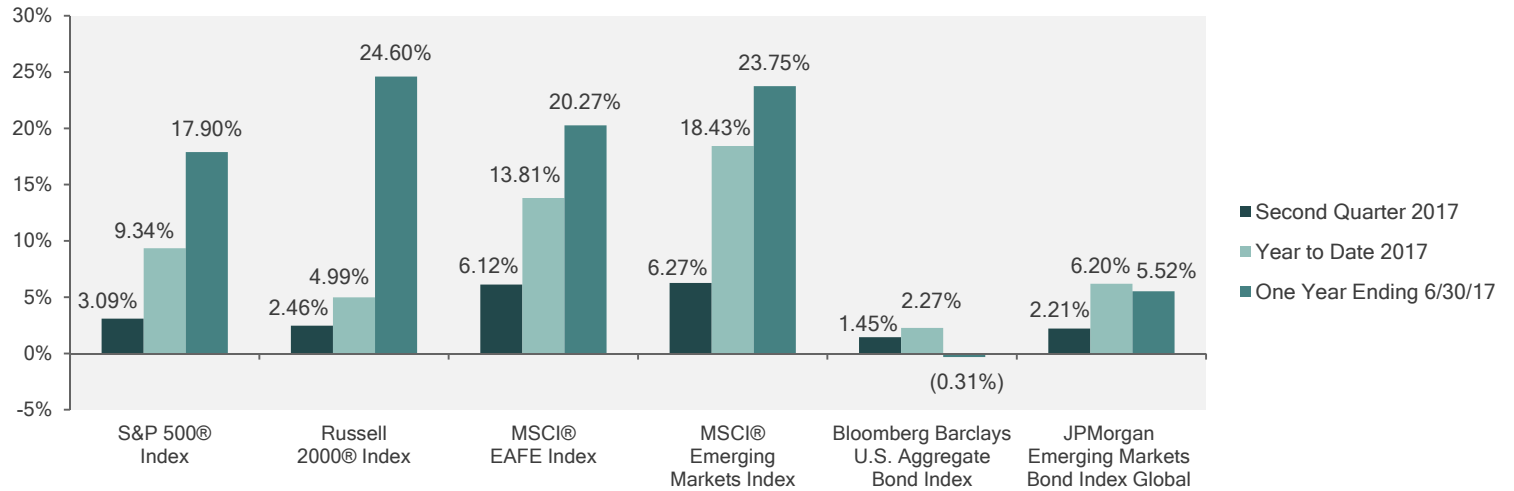


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Portfolio Manager/Analysts	Responsibility	Research Experience	Years with KAR
Douglas S. Foreman, CFA	Chief Investment Officer	31 Years	6 Years
Julie Kutasov	Portfolio Manager & Senior Research Analyst Sector Coverage: Energy and Financials	16 Years	16 Years
Craig Stone	Portfolio Manager & Senior Research Analyst Sector Coverage: Producer Durables	28 Years	17 Years
Todd Beiley, CFA	Senior Research Analyst Sector Coverage: Financials and Producer Durables	18 Years	15 Years
Jon Christensen, CFA	Senior Research Analyst Sector Coverage: Health Care	22 Years	16 Years
Chris Wright, CFA	Senior Research Analyst Sector Coverage: Consumer Discretionary, Consumer Staples, and Financials	7 Years	5 Years
Chris Benway, CFA	Research Analyst Sector Coverage: Materials and Processing and Producer Durables	8 Years	3 Years
Julie Biel, CFA	Research Analyst Sector Coverage: Technology and Consumer Discretionary	9 Years	4 Years
Jordan Greenhouse	Portfolio Specialist	20 Years*	1 Year

*Represents years of industry experience.

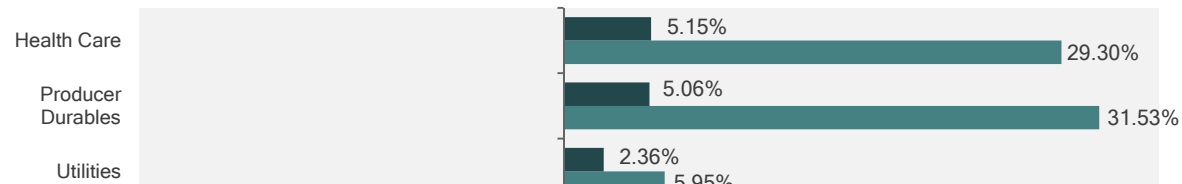
Index Performance



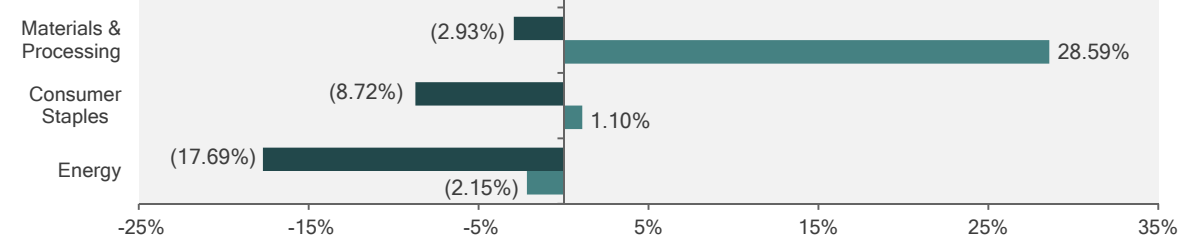
Sector Performance

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

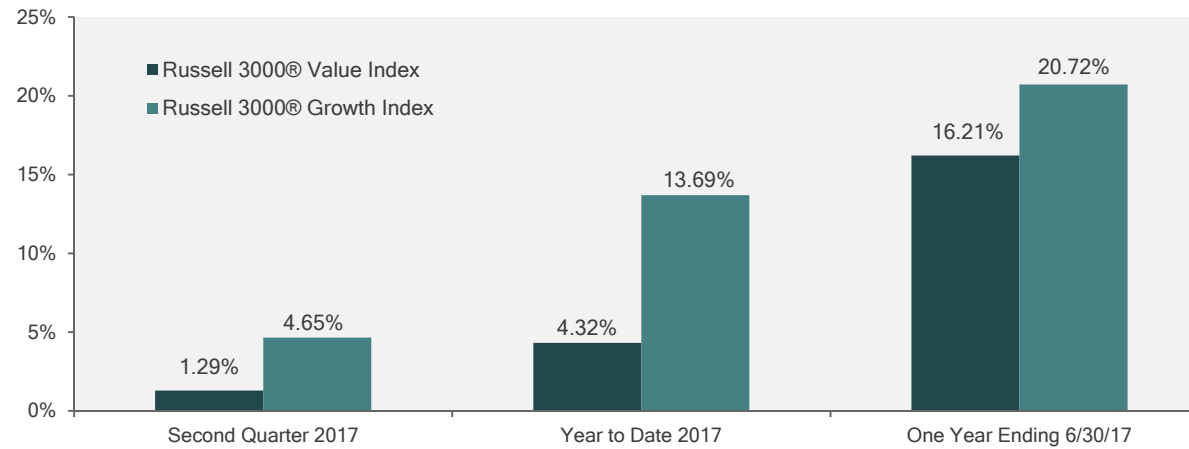
Frequent Style Rotation



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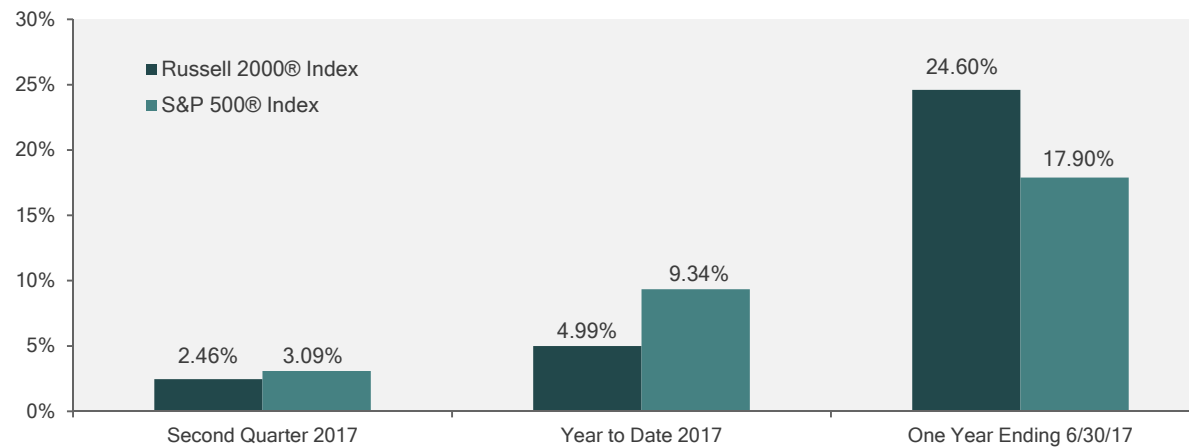
Performance by Style

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



Performance by Market Cap

Russell 2000® Index vs. S&P 500® Index



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Quarterly Performance Overview

Small Cap Quality Value Portfolio
Periods Ending June 30, 2017



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Monthly, Quarterly and Year to Date Performance

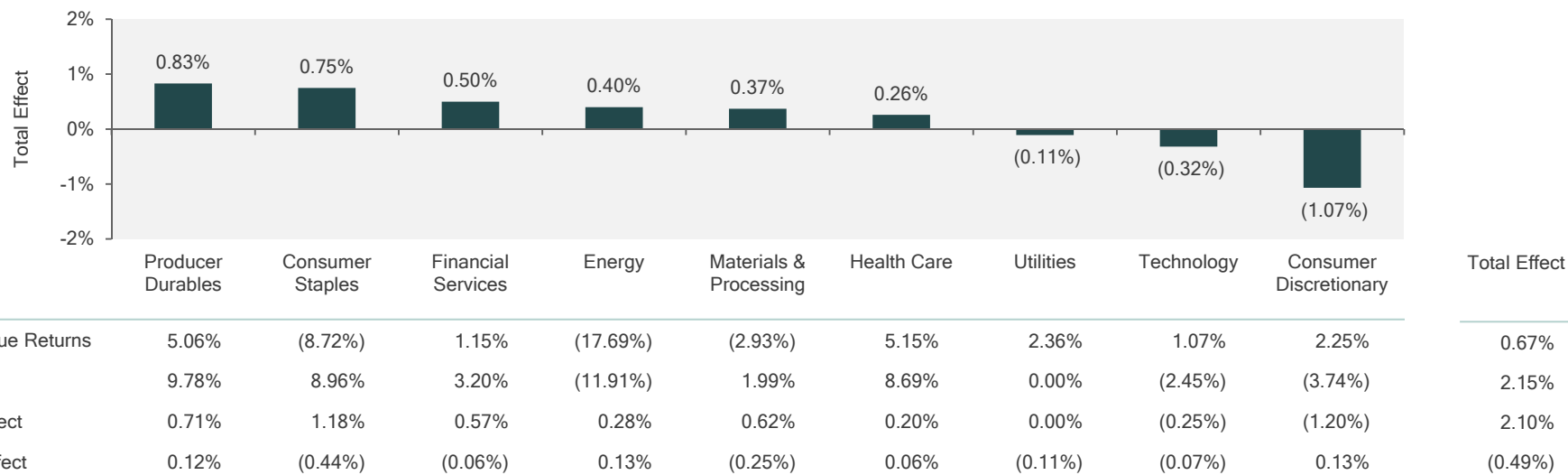
	Gross (%)	Net (%)	Index (%)	Excess Returns (bps)
April	1.83	1.58	0.39	144
May	(1.90)	(2.15)	(3.11)	121
June	2.26	2.01	3.50	(124)
Second Quarter	2.15	1.39	0.67	148
Year to Date	7.20	5.62	0.54	666

Contributors

Highest	Contribution
Graco	+0.73%
HFF	+0.64%
National Beverage	+0.57%
Lowest	Contribution
Cheesecake Factory	(0.83%)
Cinemark Holdings	(0.56%)
Core Laboratories	(0.48%)

Attribution by Sector

Quarter Ending June 30, 2017



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Annual Performance Overview

Small Cap Quality Value Portfolio

Periods Ending June 30, 2017



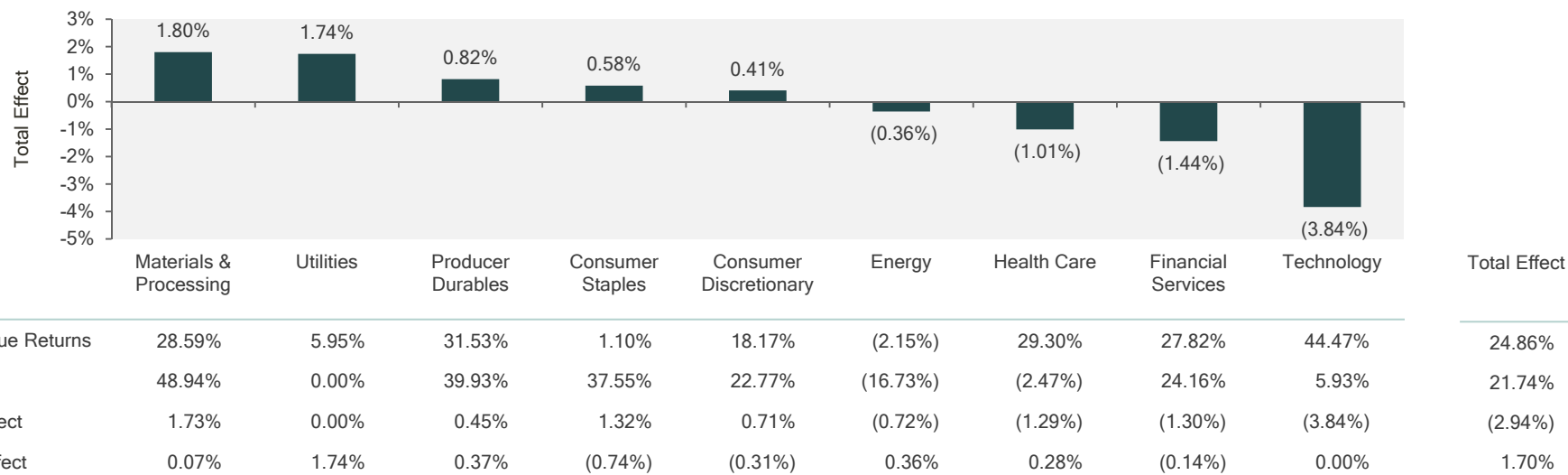
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Quarterly and Annual Performance

	Gross (%)	Net (%)	Index (%)	Excess Returns (bps)
Third Quarter 2016	1.53	0.78	8.87	(734)
Fourth Quarter 2016	11.86	11.05	14.07	(222)
First Quarter 2017	4.94	4.16	(0.13)	507
Second Quarter 2017	2.15	1.39	0.67	148
1 Year Ending 6/30/17	21.74	18.20	24.86	(311)

Attribution by Sector

One Year Ending June 30, 2017



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Highest Contributors

Small Cap Quality Value Portfolio

One Year Ending June 30, 2017



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Investment Management

Security	Contribution	Comments
Thor Industries	+2.13%	Thor's stock increased over the past 12 months as sales for both Thor and the RV industry surpassed the prior peak in sales, which was set back in 2006. Shares also benefited from positive reactions to the company's acquisition of competitor, Jayco. The Jayco acquisition was reasonably priced, gave Thor additional scale and increased its mix in the fast-growing towable segment. With RV industry volumes growing nicely thus far in 2017, we expect Thor's revenue, margin and return on equity to continue to increase.
Cognex	+2.03%	As the factory automation industry continues to grow, Cognex has seen its products being adapted outside its traditional manufacturing customers and into electronics and logistics industries. With strong double-digit top-line growth rates over the past year, the company has been able to leverage gross margins to near 80% and operating margins near 30%. Its largest Japanese competitor, Keyence, actually has higher margins than Cognex given its larger revenue base, but is not growing at the pace of Cognex.
Cabot Microelectronics	+1.99%	Over the past year, Cabot outperformed as semiconductor industry production rebounded and the introduction of new technology required additional slurry volume. Cabot's innovative product offering, combined with large customer switching costs, will enable the company to consistently generate strong returns on capital.

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Lowest Contributors

Small Cap Quality Value Portfolio

One Year Ending June 30, 2017



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Security	Contribution	Comments
Sally Beauty Holdings <i>(Purchased Q3 2016)</i>	(1.14%)	Sally Beauty Holdings' results over the last 12 months reflect the challenge of enacting a retail turnaround in a challenging economic market. While the company has made solid strides in improving the look and feel of its stores and its basic back office technology, sales in its Sally Brand stores turned slightly negative. The company is also working to figure out how to best structure its loyalty program. This may take a few more quarters to resolve. The company may consider closing stores, which should alleviate some cannibalization pressure in the medium term.
Syntel <i>(Sold Q4 2016)</i>	(1.03%)	Syntel reported weak results, with sluggish end-market demand. Management commented that decision cycles continue to lengthen with persistent contract delays. Customer concentration has been an ongoing issue for the company and is a concern from the standpoint of long-term prospects and profitability. Following continued weakness in the business, we exited our position.
Monotype Imaging Holdings	(0.83%)	Monotype's stock continues to be negatively impacted by its Olapic acquisition. This expensive acquisition has pressured margins in the near term. The company is spending materially to support its salesforce, as well as investing in technology to improve the user experience. There is still concern among core investors if this acquisition is too far outside the company's core competency. Even without the problems around the acquisitions, the company's results in the core Create Professional digital commerce sales have been weak as well.

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Purchases

Small Cap Quality Value Portfolio
Quarter Ending June 30, 2017



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Purchases	Descriptions/Reasons
Watsco—Increased Position	We increased our position based upon valuation. The company's balance sheet remains solid. With its capital-light business model, Watsco has been a reliable free-cash-flow generator and a disciplined capital allocator returning excess cash to shareholders in the form of cash dividends, including the just announced 19% annual dividend increase.

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Sales

Small Cap Quality Value Portfolio
Quarter Ending June 30, 2017



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Sales	Reasons
None	

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Portfolio Characteristics

Higher Quality, Stronger, More Consistent Growth, & Better Value
Small Cap Quality Value Portfolio – As of June 30, 2017



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	KAR Small Cap Quality Value	Russell 2000® Value Index
Quality		
Return on Equity—Past 5 Years	22.5%	7.6%
Total Debt/EBITDA	1.9 x	6.6 x
Earnings Variance—Past 10 Years	23.3%	83.6%
S&P Stock Ranking (A+, A, A-, B+)	69.6%	24.5%
Growth		
Earnings Per Share Growth—Past 5 Years	7.1%	6.6%
Earnings Per Share Growth—Past 10 Years	10.9%	4.6%
Dividend Per Share Growth—Past 5 Years	13.8%	6.4%
Dividend Per Share Growth—Past 10 Years	8.4%	2.6%
Capital Generation—{ROE x (1-Payout)}	12.2%	5.4%
Value		
P/E Ratio—Trailing 12 Months	29.5 x	28.2 x
Dividend Yield	1.5%	1.9%
Free Cash Flow Yield†	4.3%	2.5%
Market Characteristics		
\$ Weighted Average Market Cap—4 Qtr. Average	\$3.2 B	\$1.9 B
Largest Market Cap—4 Qtr. Average	\$7.3 B	\$8.5 B
Annualized Standard Deviation—Since Inception*	18.2%	20.0%

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 March 31, 2017. Prices are as of June 30, 2017. 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.

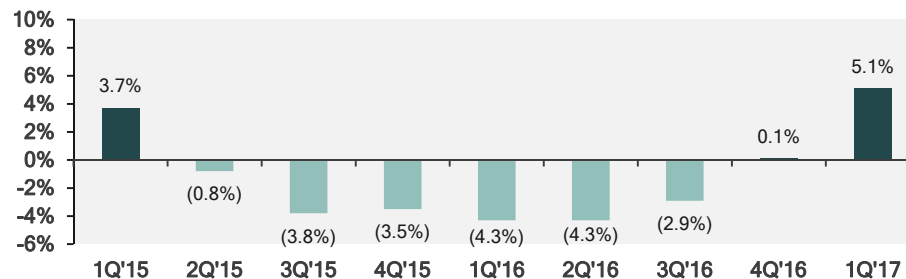
Estimates are based on certain assumptions and historical information. Past performance is no guarantee of future results.

The U.S. economy continues to grow modestly. International economies have started to accelerate, improving the outlook for global economic growth rates.

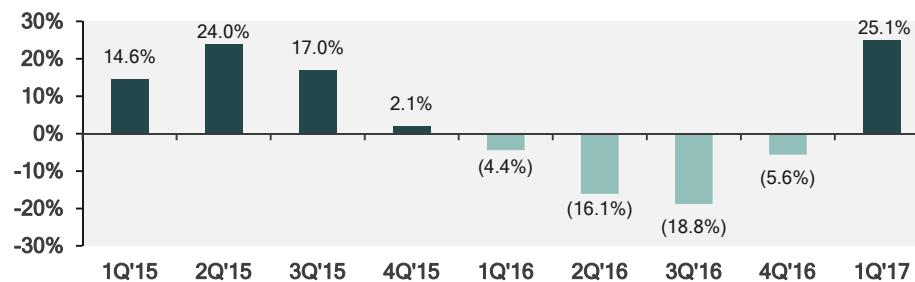
- Corporate earnings and revenue continue to grow in constant currency and companies are maintaining historically high operating margins. Q1 earning per share (EPS) for the S&P 500 was up 13.4%. S&P 500 EPS should improve from low single-digit to mid-to-high single-digit growth over the next 12 to 18 months. Additionally, international markets reported earnings are improving.
- Trump's election should accelerate U.S. GDP to the 2.5% to 3.5% range over the next two years if his agenda becomes a reality. The stock market is assuming little-to-no progress on his agenda currently.
- Corporate cash is at all-time highs, leading to share buybacks, dividend increases and acquisitions. Companies have become more disciplined about their capital allocation. M&A activity has slowed somewhat due to uncertainties about tax reform, but IPO activity is finally picking up.
- Household net wealth continues to hit a new high. Consumer confidence is back to 2007 levels. The labor market continues to improve meaningfully, however, this is a lagging indicator.
- Energy costs have declined significantly providing input cost relief for consumers and companies. However, many energy-related businesses are quickly recovering from recession conditions. Sustainability of the price of energy is an important issue over the next couple of years.
- Innovation is alive and well with the U.S. creating many investment opportunities in industries such as technology, health care and energy.
- Bond yields and mortgage rates have continued to stay fairly low by historical standards, which has helped real estate markets continue to recover.

Global Earnings Growth

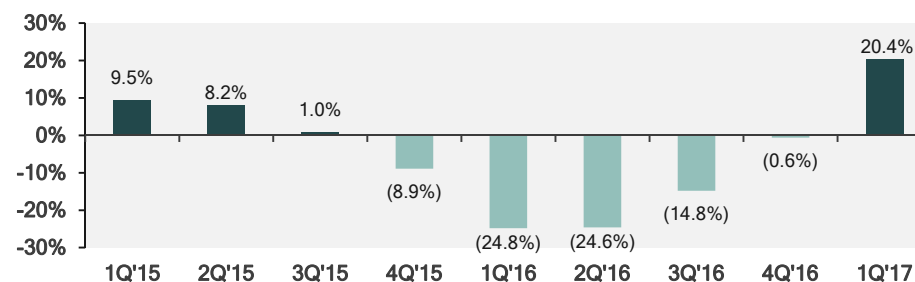
S&P 500® Trailing 12-Month Earnings Growth (Year Over Year)



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



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



Data as of June 30, 2017.

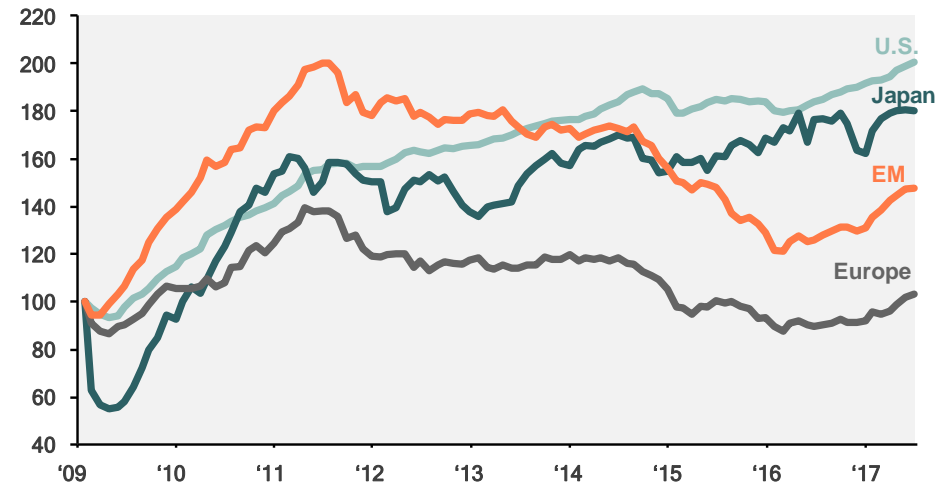
Data is obtained from FactSet Research Systems, Strategas and Bloomberg and is assumed to be reliable. Past performance is no guarantee of future results.

Global growth prospects are solid in Q2, providing support for risk-based assets abroad.

- At a 2.30% yield on the U.S. 10-year bond, a higher initial yield combined with a stable U.S. dollar makes the U.S. bond market very attractive to foreign investors.
- European sovereign debt rates continue to be fairly stable, business activity has improved, and European banks have started to recover due to a steepening yield curve. Italy is finally addressing some of their banking problems.
- European inflation is very benign but is reaching targets. Yields have risen this quarter, lifting many European countries out of a negative interest rate environment.
- Chinese economic growth rates have stabilized in 2016, albeit at lower rates than historically. The transition to a consumption-led economy will take time, but is clearly occurring.
- Weak commodity prices have pressured emerging market growth rates and currencies, but are showing signs of improvement over the last couple of quarters. Uncertainty about U.S. trade policies may slow down the recovery in progress, but initial negotiations appear much better than expected.

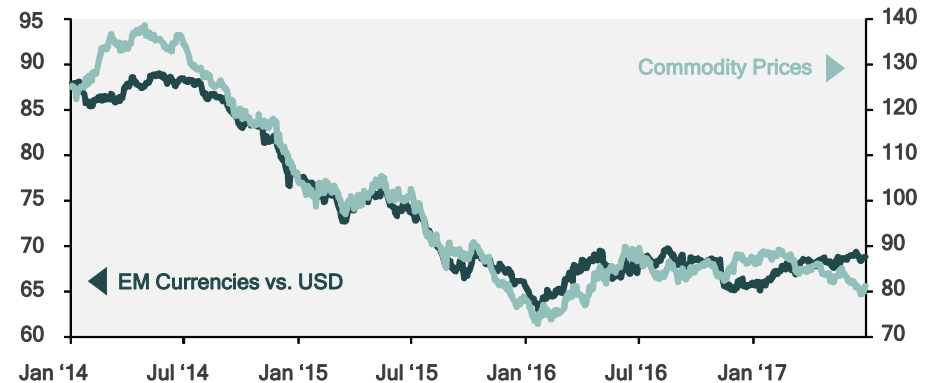
Global Earnings

EPS, U.S. Dollar, NTMA, Jan. 2009 = 100



Emerging Markets

Commodity Prices and FX



Data as of June 30, 2017.

EM currencies is the J.P. Morgan Emerging Market Currencies Index. Commodity prices is the Bloomberg Commodity Price Index. Data is obtained from FactSet Research Systems, J.P. Morgan Asset Management, MSCI, Standard & Poor's and Bloomberg and is assumed to be reliable. Past performance is no guarantee of future results.

Potential Economic Risks:

- How will the long end of the bond market continue to react to the Fed's desire to raise short-term rates once more in 2017?
- Renewed energy price weakness could continue to erode capital spending and business confidence.
- A hard landing in China could slow global GDP materially. Although receding, it is still a risk.
- Does the EU unravel as referendums occur into 2017/18?
- Global deflation, not inflation, continues to be principal risk, but inflation expectations are finally rising somewhat, although still short of targets.
- Continued uncertainty surrounding global trade, travel and immigration policy in the U.S.

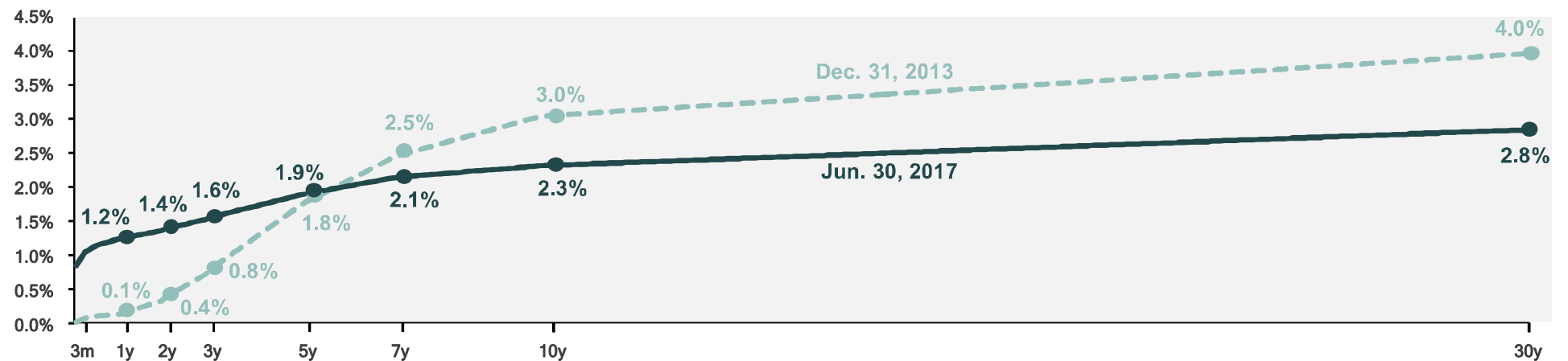
Price of Oil

Brent Crude, Nominal Prices, USD/Barrel



Yield Curve

U.S. Treasury Yield Curve



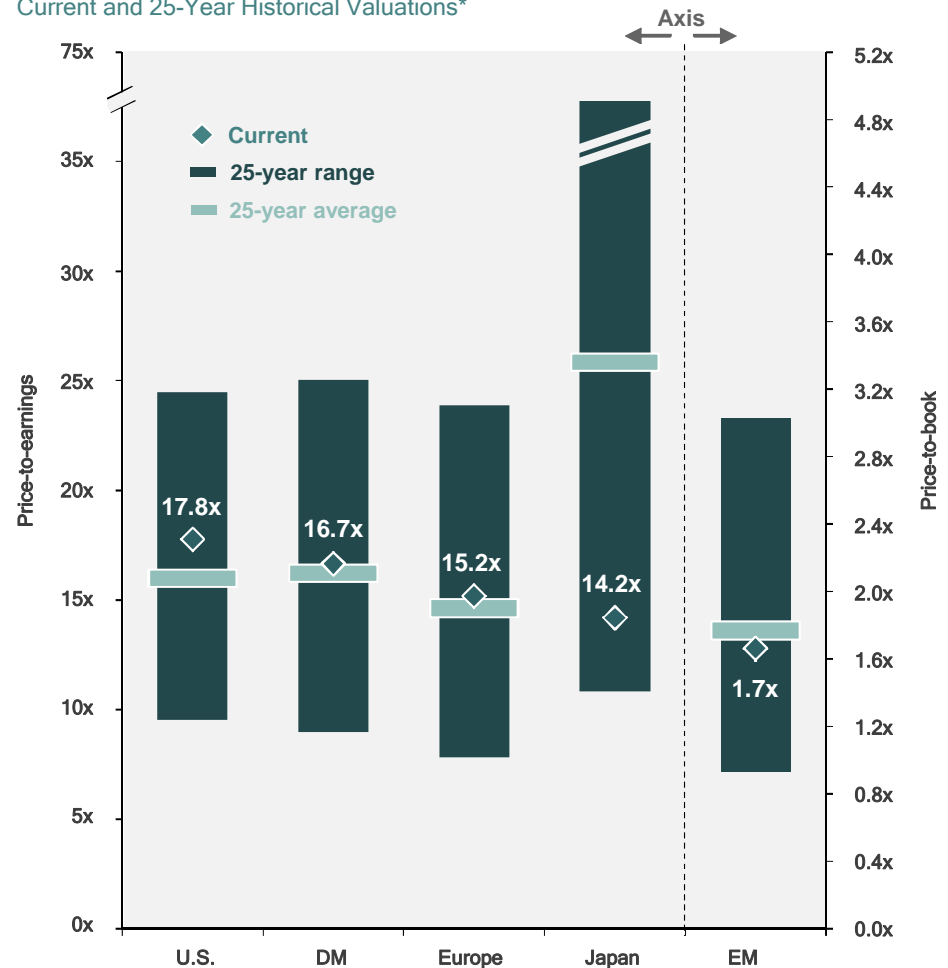
Data as of June 30, 2017.

Brent crude prices are monthly averages in USD using global spot ICE prices. Data is obtained from FactSet Research Systems and J.P. Morgan Asset Management and is assumed to be reliable. Past performance is no guarantee of future results.

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.

- As consumer confidence stays strong, there is potential for P/E ratios to improve slightly. Retail investors still are not engaged.
- Equity valuations remain reasonable by historic measures, both at absolute levels but particularly relative to interest rates.
- With favorable corporate cash flow, investors are being rewarded with increased share buybacks, dividends and occasional acquisitions.
- Corporate profit margins are still being maintained at very high levels even in an overall slower growth environment.
- In the modest growth economy and maturing economic cycle we foresee, we believe high-quality businesses with protected markets are a better place to invest than lower quality companies operating in more competitive markets.
- 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.

Global Valuations
Current and 25-Year Historical Valuations*



Data as of June 30, 2017.

*Valuations refer to NTMA P/E for Europe, U.S., Japan and developed markets, and P/B for emerging markets. Valuation and earnings charts use MSCI indices for all regions/countries, except for the U.S. which is the S&P 500. All indices use IBES aggregate earnings estimates, which may differ from earnings estimates used elsewhere in the book. Data is obtained from FactSet Research Systems, J.P. Morgan Asset Management, MSCI and Standard & Poor's and is assumed to be reliable. Past performance is no guarantee of future results.

- Portfolio Data
- Disclosure

Sector Weights

Small Cap Quality Value Portfolio

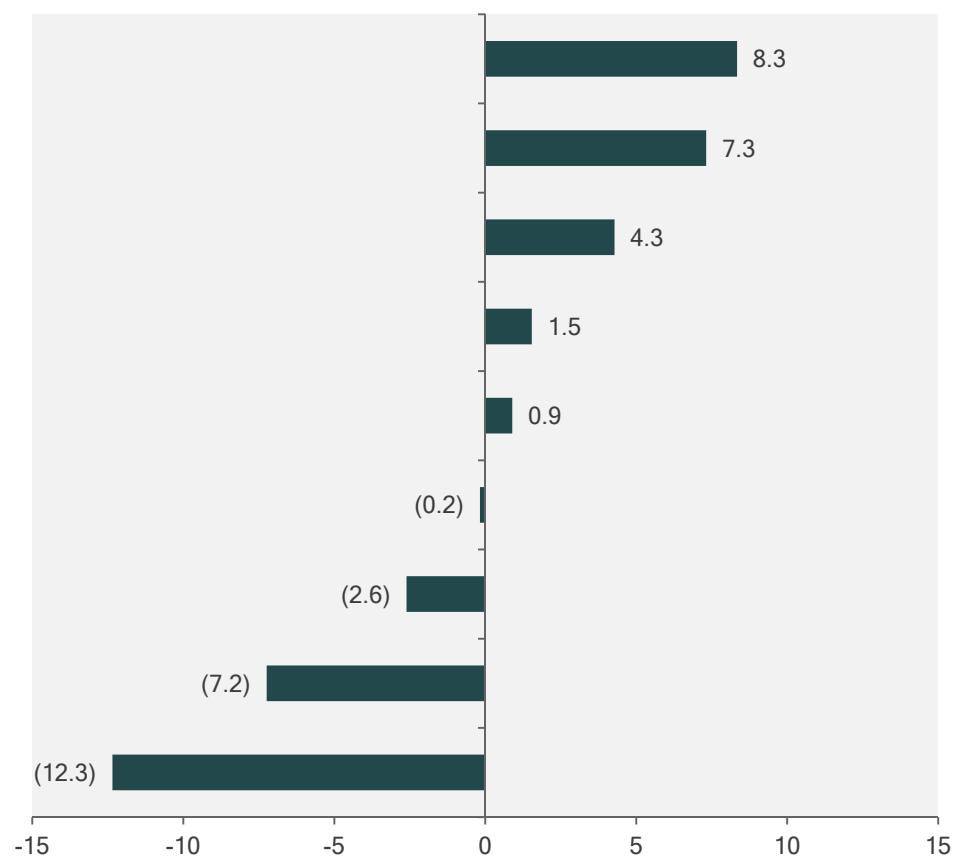
As of June 30, 2017



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Sectors	KAR Small Cap Quality Value (%)	Russell 2000® Value Index (%)
Materials & Processing	14.2	5.9
Consumer Discretionary	18.5	11.2
Consumer Staples	6.7	2.4
Health Care	7.0	5.4
Producer Durables	12.0	11.1
Technology	8.3	8.4
Energy	3.4	6.0
Utilities	—	7.2
Financial Services	29.9	42.2

Underweight/Overweight (%)



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Conviction-Driven Investing Provides Opportunities for Excess Return

Small Cap Quality Value Portfolio

As of June 30, 2017



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Top 10 Holdings	Russell Sector	% of Portfolio
National Beverage	Consumer Staples	4.6
RE/MAX Holdings	Financial Services	4.6
Bank of Hawaii	Financial Services	4.3
SiteOne Landscape Supply	Consumer Discretionary	4.3
Thor Industries	Consumer Discretionary	4.2
Scotts Miracle-Gro	Materials & Processing	4.2
Cinemark Holdings	Consumer Discretionary	4.0
RBC Bearings	Materials & Processing	4.0
Cass Information Systems	Financial Services	3.7
Anika Therapeutics	Health Care	3.7
Total		41.7

Research confidence leads to large active weights

	KAR Small Cap Quality Value	Russell 2000® Value Index
# of Holdings	31	1,399
Average Position Size (%)	3.2	0.1
Weight of Top Ten Holdings (%)	41.7	4.3
Active Share (%)	99.7	—

The strategy benefits from diversification while still taking significant active positions

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Strong Risk-Adjusted Returns

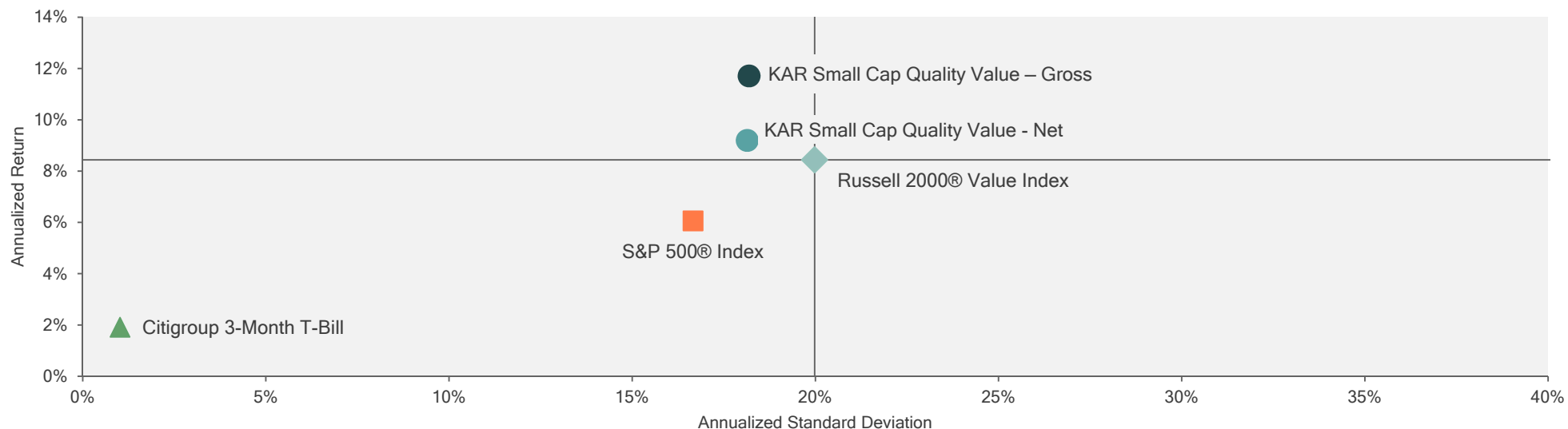
Small Cap Quality Value Portfolio
Inception* to June 30, 2017



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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	4.23	0.54	18.19	13.09	0.82	8.88
Russell 2000 Value Index	0.00	0.33	19.98	15.11	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



Kayne Anderson Rudnick
Investment Management

Annualized Performance

Periods Ending 6/30/17	Gross (%)	Net (%)	Index (%)	Excess Return (bps)
Second Quarter	2.15	1.39	0.67	148
Year to Date	7.20	5.62	0.54	666
1 Year	21.74	18.20	24.86	(311)
3 Years	12.18	9.70	7.02	516
5 Years	15.29	13.02	13.39	191
7 Years	15.77	13.55	13.50	227
10 Years	9.64	7.62	5.92	372
Since Inception*	11.72	9.23	8.37	335

Calendar Year Performance

Periods Ending 12/31	Gross (%)	Net (%)	Index (%)	Excess Return (bps)
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	(13.66)	2327

*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



Kayne Anderson Rudnick
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, 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 Quality Value 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 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

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
2007	5,392	765	100%	28	1.93	0.27	(9.78)	0.33
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

*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.