

Small Cap Core Portfolio

First Quarter 2017 | Managed Accounts



Portfolio Review

The Small Cap Core portfolio outperformed the Russell 2000 Index during the first quarter. The outperformance was primarily driven by positive stock selection in the financial services and producer durables sectors. Performance was primarily hurt by negative stock selection and an overweight in health care.

Positions that contributed most positively to performance during the quarter were Autohome and Primerica. Autohome's shares were under pressure last year due to: 1) Investments in a new car transaction business at the expense of near-term margins; and 2) management upheaval following Telstra's decision to sell its controlling stake to Ping An Insurance. With Ping An now in control, the new management team has refocused the business and begun implementing better expense discipline as evidenced by a reduction in headcount during the most recent quarter, which has been a positive for the share price.

Primerica's shares had been under pressure for the first half of 2016 due to concern regarding how the Department of Labor's Fiduciary Standard Rule (the "Rule") would impact the retirement investment account industry. While the final language of the Rule was less onerous than feared, some questions had remained over the ultimate cost of implementation. The new Trump administration has delayed implementation of the rule and there is a good chance it may never be enacted. With this overhang now removed from the stock, investors have focused on the fundamentals of the business, which generated earnings-per-share growth of 18% in the most recent quarter.

Positions that contributed most negatively to performance during the quarter were Shutterstock and Abaxis. Shutterstock's share price had rebounded in the first half of 2016 as concerns regarding the competitive threat from Adobe's new stock photo offering abated. However, a meaningful slowdown in revenue growth the past two quarters sent the share price lower. Our original investment thesis was based on the network effects of Shutterstock's core stock photo marketplace business. Even at lower growth rates, that marketplace business is very profitable and valuable. Unfortunately, the profits from that great business will remain depressed as management seeks growth by investing capital to grow other parts of the company where Shutterstock's competitive advantage is less clear. For these reasons, we sold our position.

Abaxis' shares experienced weakness in the quarter, reporting slower-than-expected revenue growth. The weakness came primarily from the medical side of the business, but competitor pressure is also impacting the veterinary side. The company has ramped up its research and development efforts in the last year, which we believe could result in material opportunities in the next few years. The company continues to have a strong balance sheet and a solid mix of consumables should allow margin expansion down the road.

Purchases and Sales

In the Small Cap Core portfolio, we bought a position in Fox Factory, and sold our positions in Shutterstock (see rationale above) and Exponent.

Fox Factory designs and manufactures premium suspension products for use on mountain bikes, all-terrain vehicles, off-road trucks, snowmobiles and motorcycles. The company possesses a durable competitive position through its brand recognition and reputation for high performance in the suspension category, which is perceived as important to the functionality of the product (bikes and off-road vehicles) by loyal users. Fox's brand has been developed over decades and is cultivated through sponsorships of widely-recognized riders and racers.

Exponent continues to perform well, fundamentally, despite top line sales growth being muted by some large contracts rolling off, and exposure to the energy markets creating some headwinds. The shares are now trading at an all-time high. However, we don't believe the current valuation creates room for multiple expansion. We also don't anticipate the acceleration of sales in the medium term.

Outlook

We believe the stock market and business activity are off to a good start this year. Corrections in the equity market may occur at any time, but conditions for a more meaningful equity bear market do not seem to be in place. President Trump's policy agenda is becoming clearer than it was during the election. However, it is still too early to declare that we have all the details on his agenda for trade policies and foreign affairs. Our patience in not overreacting to last fall's Trump rally has been rewarded. We'll adjust our portfolios if Trump's actual initiatives become reality, rather than speculation or random proposals. From a stock selection perspective, we'll continue to focus on quality companies with protective moats that can do well in both good and bad economic times.

Portfolio Highlights

Style: Small Cap
Sub-Style: Core
Index: Russell 2000®
Portfolio Inception: 1992
Portfolio Assets: \$3,728.9 M
Portfolio Turnover: 25%–35%

Investment Management Team

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

Company	Percent of equity (%)
Primerica	6.7
CDW	6.2
Autohome	5.9
Copart	5.5
WABCO Holdings	5.2
Total	29.5

*Represents years of industry experience.

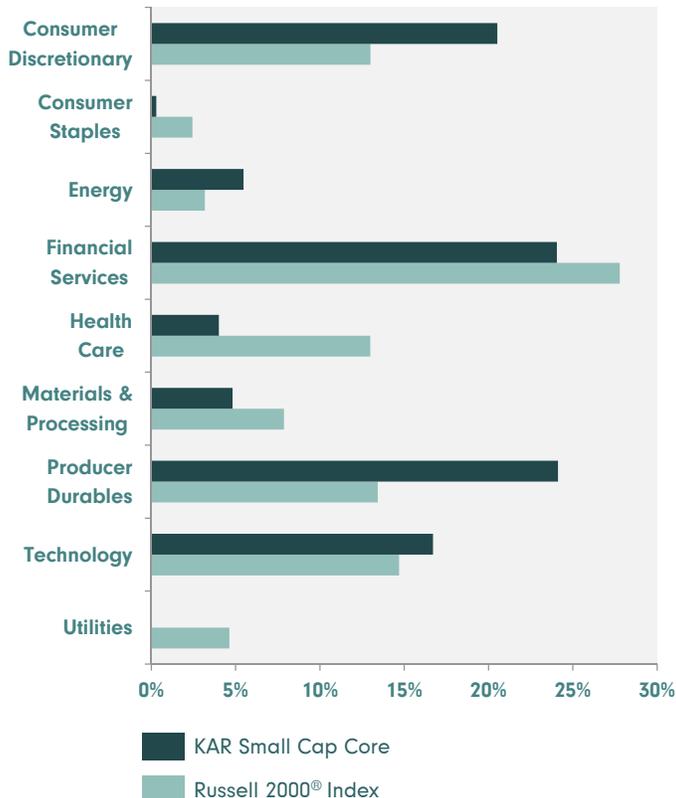
This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should be not considered a recommendation or solicitation to purchase securities. A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. Holdings and weightings are based on a representative portfolio. Individual Investors' holdings may differ slightly. Data is obtained by FactSet Research Systems and is assumed to be reliable. Numbers may not always add up due to rounding. Past performance is no guarantee of future results.

Investment Process: Discovering Quality

Development of High-Quality Universe	Proprietary Fundamental Research	Portfolio Construction	Sell Discipline
200 Stocks Quantitative Screens <ul style="list-style-type: none"> High return on capital over a full economic cycle Long and resilient earnings history High return on net operating assets Minimal debt Other Resources <ul style="list-style-type: none"> Research on existing portfolio holdings Meetings with companies Industry reviews Investment conferences Third-party research 	50–60 Stocks Qualitative Analysis <ul style="list-style-type: none"> Evaluate sustainability of business model and assess management's ability to direct capital where it can create further control of its market Financial Analysis <ul style="list-style-type: none"> Evaluate basis for superior profitability, long-term growth potential, and ability to allocate capital appropriately Valuation Analysis <ul style="list-style-type: none"> Determine the current and potential value of the business 	23–35 Stocks Position Weights <ul style="list-style-type: none"> Average position size is typically 3% Max initial position size is 5% (cost) Max position size is 10% (market) Sector Tolerances <ul style="list-style-type: none"> +/- 10% of the sector weights of the Russell 2000® Index Holding Period <ul style="list-style-type: none"> Typically 3-to-5 years Portfolio turnover is typically 25% to 35% Cash Levels <ul style="list-style-type: none"> Typically less than 5% Max cash position is 10% 	Extended Valuation Portfolio Upgrade Diversification Requirements Acquisition Activity Negative Company or Industry Changes
Higher Quality Stronger, More Consistent Growth Better Value			

Sector Diversification

As of March 31, 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 March 31, 2017

	KAR Small Cap Core	Russell 2000® Index
Quality		
Return on Equity—Past 5 Years	27.6%	10.4%
Total Debt/EBITDA	1.3 x	5.4 x
Earnings Variance—Past 10 Years	35.1%	82.6%
Growth		
Earnings Per Share Growth—Past 10 Years	13.0%	6.5%
Dividend Per Share Growth—Past 10 Years	15.7%	3.8%
Capital Generation—{ROE x (1-Payout)}	21.2%	7.8%
Value		
P/E Ratio—Trailing 12 Months	24.5 x	39.1 x
Dividend Yield	0.9%	1.4%
Free Cash Flow Yield†	4.3%	3.2%
Market Characteristics		
\$ Weighted Average Market Cap—4 Qtr. Avg.	\$4.2 B	\$2.0 B
Largest Market Cap—4 Qtr. Avg.	\$8.2 B	\$8.3 B
Annualized Standard Deviation—Since Inception*	15.7%	19.6%

*April 1, 1992

†Free cash flow data is as of December 31, 2016. Prices are as of March 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.

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Strong Risk-Adjusted Returns

Inception* to March 31, 2017



Historical Returns

	KAR Small Cap Core (gross)	KAR Small Cap Core (net) [‡]	Russell 2000® Index
Annualized Returns (%)[†]			
As of March 31, 2017			
1 st Quarter	5.96	5.18	2.47
One Year	21.45	17.91	26.22
Three Years	12.03	9.63	7.22
Five Years	12.78	10.59	12.35
Seven Years	14.96	12.80	12.27
Ten Years	10.30	8.30	7.12
Inception*	12.69	9.97	9.48

Year	KAR Small Cap Core (gross)	KAR Small Cap Core (net) [‡]	Russell 2000® Index
2016	18.55	15.09	21.31
2015	2.09	0.51	(4.41)
2014	7.31	5.57	4.89
2013	30.89	28.76	38.82
2012	13.75	11.80	16.35
2011	9.64	7.75	(4.18)
2010	24.83	22.52	26.85
2009	31.80	29.72	27.17
2008	(28.15)	(29.36)	(33.79)
2007	3.25	1.71	(1.57)
2006	13.46	11.87	18.37
2005	7.87	4.63	4.55
2004	23.07	19.42	18.33
2003	35.02	31.19	47.25
2002	(13.73)	(16.34)	(20.48)
2001	6.82	3.74	2.49
2000	20.98	17.42	(3.02)
1999	7.02	3.93	21.26
1998	20.98	17.42	(2.55)
1997	21.00	17.45	22.36
1996	26.98	23.22	16.49
1995	18.57	15.07	28.45
1994	2.75	(0.26)	(1.82)
1993	20.00	16.54	18.88
1992 [§]	9.65	7.25	10.16

*April 1, 1992

[†]All periods less than one year are total returns and are not annualized. Returns are preliminary.

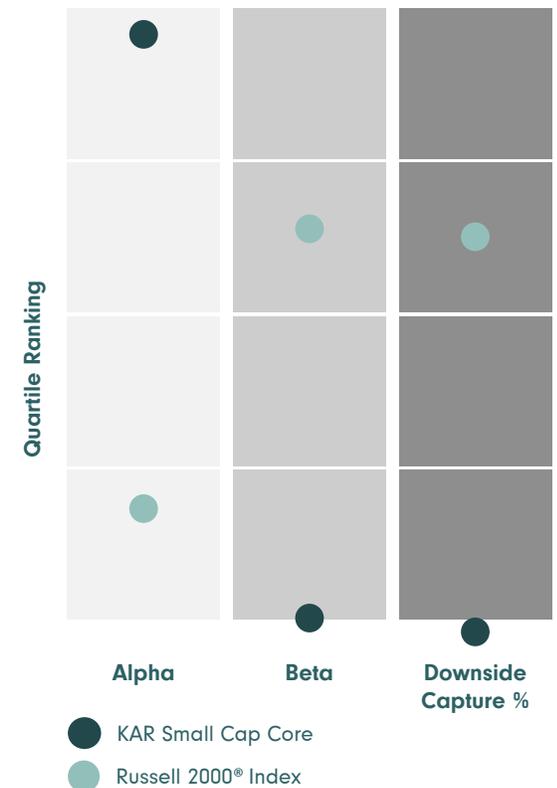
[‡]Net of all fees and expenses. Assumes a 3% annual fee.

[§]Performance calculations are for the nine months ended December 31, 1992.

This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. Returns of the Kayne Anderson Rudnick composite are preliminary and gross of fees unless otherwise specified. For further details on the composite, please see the disclosure statement in this presentation. The Small Cap Core Universe includes all managers categorized in the small 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.

Peer Comparison Chart

Ten Years Ending March 31, 2017



Performance Statistics

Inception* to March 31, 2017

	KAR Small Cap Core	Russell 2000® Index
Annualized Return	12.69	9.48
Annualized Standard Deviation	15.71	19.61
Alpha	4.69	0.00
Beta	0.72	1.00
Sharpe Ratio	0.65	0.35
R-Squared	81.50	100.00

IMPORTANT RISK CONSIDERATIONS: Equity Securities: The market price of equity securities may be adversely affected by financial market, industry, or issuer specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. **Limited Number of Investments:** Because the fund has a limited number of securities, it may be more susceptible to factors adversely affecting its securities than a less concentrated fund. **Industry/Sector Concentration:** A fund that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated fund.

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Disclosure

Kayne Anderson Rudnick Investment Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Kayne Anderson Rudnick Investment Management, LLC has been independently verified for the period from January 1, 1999 through December 31, 2014.

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, 2014. The verification and performance examination reports are available upon request.

Kayne Anderson Rudnick Investment Management, LLC, a wholly owned subsidiary of Virtus Investment Partners, Ltd., 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. 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

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® Index Annual Return (%)	Internal Dispersion
2006	6,523	1,011	100%	51	13.46	11.87	18.37	0.46
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	22.52	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

*Beginning October 1, 1995, pure gross returns are supplemental to net returns.

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