



PORTFOLIO OVERVIEW

In a reversal from the first quarter, the second quarter experienced the outperformance of stocks that exhibit high-quality characteristics. Utilizing measurements such as S&P credit ratings and stocks with a high return on equity, higher quality stocks outperformed across all market caps and sector delineations. Given the portfolio's high-quality orientation and strong downside protection, the Small Cap Core Portfolio outperformed the Russell 2000 Index for the quarter.

The companies that contributed the most to performance during the quarter included Advisory Board and CARBO Ceramics. Advisory Board's stock performed strongly following reports of better-than-expected fiscal fourth quarter 2010 results driven by solid revenue growth and profitability improvement. Importantly, the company's member renewal rate stood at an impressive 89% and contract value was up 13%, providing the foundation for the increased earnings guidance. The company is serving an attractive recession-resilient market of health-care industry executives who rely on the firm for providing them with a continuous flow of industry intelligence, the need for and urgency of which is further amplified by the ongoing health-care reform. The company's balance sheet remains pristine with no debt. After being one of the lowest performers in the first quarter, CARBO Ceramics' share price rebounded as natural-gas prices rebounded. While all of the energy focus was on the oil spill in the Gulf, natural-gas prices rebounded from winter due to better supply and demand equations. Investors are also looking forward to the fourth quarter when the company will have its new plant capacity start to come on-line which will alleviate some of the company's current capacity constraints.

The companies that contributed the least to performance during the quarter included Federated Investors and Blackbaud. Federated Investors' shares declined in the second quarter after the company reported first-quarter earnings that were below consensus expectations. The company's money market business is currently being negatively affected by the extremely low level of short-term interest rates. We believe this situation is temporary and that the company will eventually benefit from an increase in short-term rates. Although Blackbaud has continued to produce solid results, the shares suffered as the valuation was on the higher end of its historical range.

PURCHASES AND SALES

There were no new purchases or complete sales from the portfolio during the quarter.

OUTLOOK

We are in the midst of a restrained economic recovery given the additional worries of the European Union economies and continued high unemployment. Some pundits are calling for another round of fiscal stimulus. However, we believe it is not likely unless we are on the doorstep of a double-dip recession as the capital toll on the federal budget will likely limit what Congress can do, particularly as mid-term elections near in November. The balancing act of stimulating the economy and the augur of fiscal responsibility should keep the Fed in a neutral stance for the balance of 2010, resulting in interest rates that should be range bound.

Though credit availability is better today than a year ago, businesses are still cautious about increasing their permanent employment base and are continuing to restrain their physical capital spending. This cautious stance has allowed corporations to show profitability margins near the upper end of their historical range. However, job growth will be needed at some point to have a sustained economic rebound and corporations will need to open the purse strings and shoulder some of the economic responsibilities. The consumers cannot do it alone in this economic cycle.

Despite the economic and market gyrations over the past couple of years, our investment strategy remains consistent. We continue to focus on investing in the highest quality businesses that can endure, outgrow their respective markets, and be purchased at discount valuations.

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 not be considered a recommendation or solicitation to purchase securities. A complete list of holdings and specific securities transactions for the preceding 12 months is available upon request. Holdings are subject to change. Past performance is no guarantee of future results.

PORTFOLIO HIGHLIGHTS

Style: Small Cap
Sub-Style: Core
Index: Russell 2000*
Portfolio Inception: 1992
Portfolio Assets: \$989.7 M
Portfolio Turnover: 25%–35%

INVESTMENT MANAGEMENT TEAM

NAMES	YEARS of research experience
Robert Schwarzkopf, CFA <i>CIO + Portfolio Manager</i>	29
Todd Beiley, CFA <i>Portfolio Manager + Senior Research Analyst</i>	11
Jon Christensen, CFA <i>Portfolio Manager + Senior Research Analyst</i>	15
Julie Kutasov <i>Senior Research Analyst</i>	9
Craig Stone <i>Senior Research Analyst</i>	21
Craig Thrasher, CFA <i>Research Analyst</i>	5
Gregory Toppe, CFA <i>Research Analyst</i>	10
Aaron Reed, CIMA, CIMC <i>Senior Portfolio Advisor</i>	20
Steve Weyland, CFA <i>Senior Portfolio Advisor</i>	19

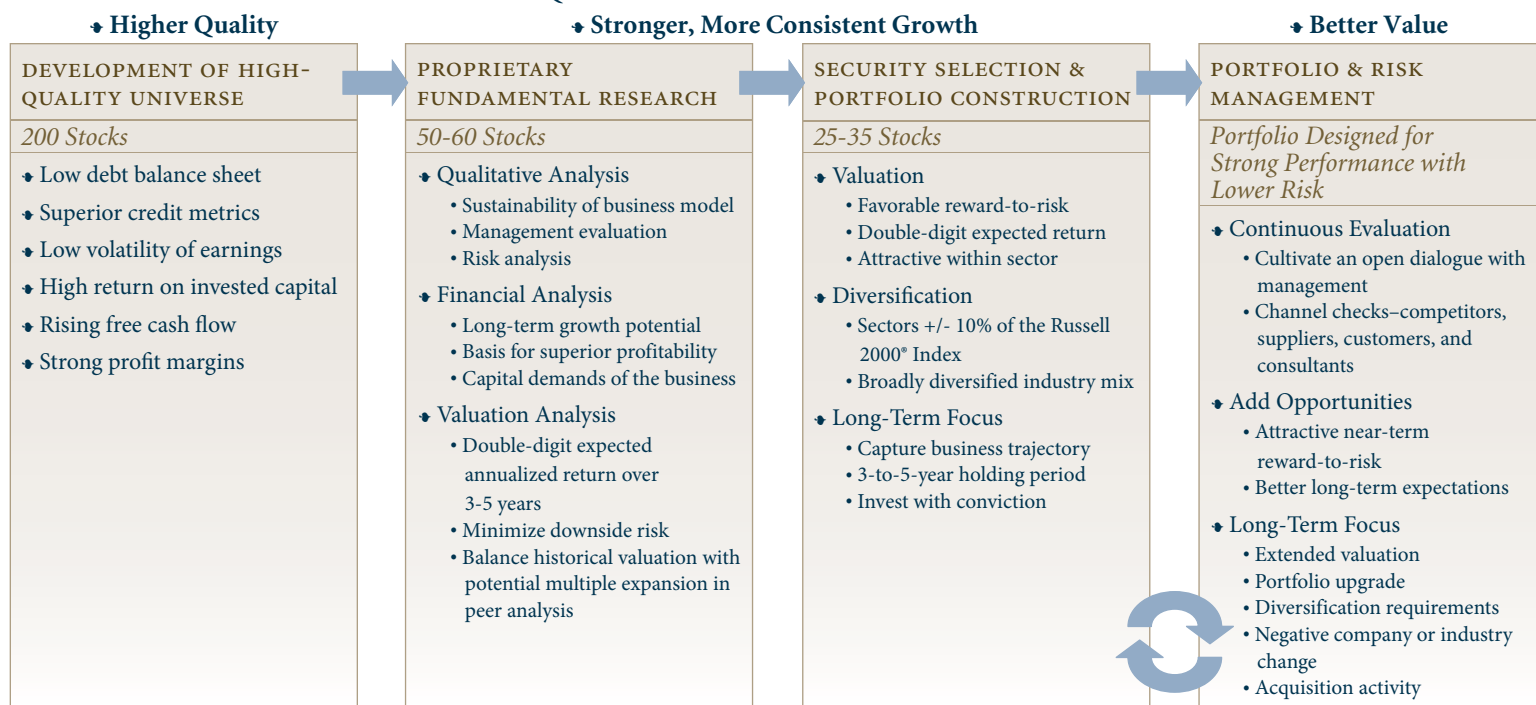
TOP FIVE HOLDINGS

as of June 30, 2010

COMPANY	PERCENT of equity (%)
CARBO Ceramics	7.0
POOLCORP	5.9
ANSYS	5.6
Blackbaud	5.4
Brown & Brown	5.4
Total	29.3

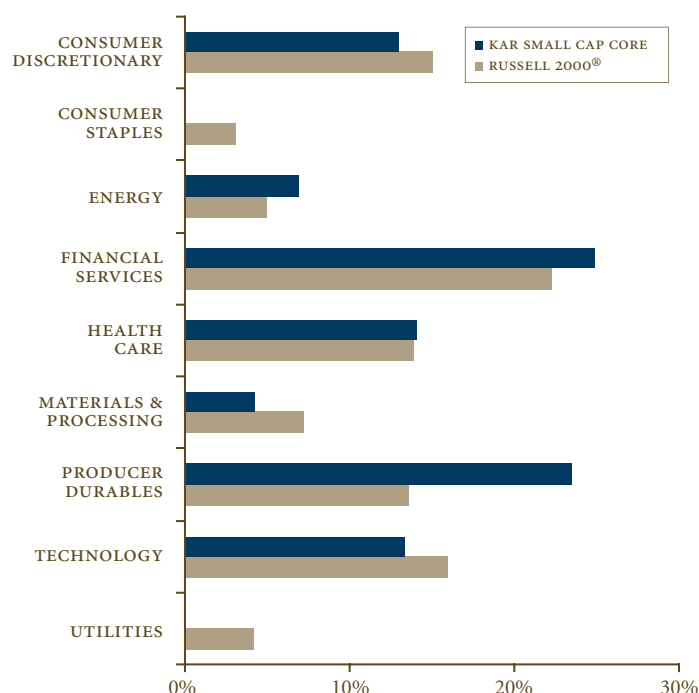
A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. Holdings and weightings listed above are based on a representative portfolio of the Kayne Anderson Rudnick Small Cap Core strategy. Individual investors' holdings may differ slightly from the representative portfolio.

INVESTMENT PROCESS—DISCOVERING QUALITY



SECTOR DIVERSIFICATION

as of June 30, 2010



Data is obtained from FactSet Research Systems and is assumed to be reliable. A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. The sector information represented above is based on Russell sector classifications.

PORTFOLIO CHARACTERISTICS

as of June 30, 2010

KAR Small Cap Core Russell 2000®

QUALITY	KAR Small Cap Core	Russell 2000®
Return on Equity—Past 5 yrs.	21.5%	9.5%
Total Debt/EBITDA	0.7x	4.7x
Earnings Variance—Past 10 yrs.	26.0%	96.6%
S&P Stock Ranking (A+, A, A-, B+)	71.0%	20.4%
GROWTH		
Earnings Per Share Growth—Past 5 yrs.	7.1%	5.7%
Earnings Per Share Growth—Past 10 yrs.	15.1%	5.8%
Dividend Per Share Growth—Past 5 yrs.	22.5%	3.4%
Dividend Per Share Growth—Past 10 yrs.	18.4%	5.8%
Capital Generation—(ROE x {1-Payout})	16.1%	8.3%
VALUE		
P/E Ratio—Trailing 12 Months	23.0x	30.1x
Dividend Yield	1.3%	1.3%
Free Cash Flow Yield†	5.8%	5.4%
MARKET CHARACTERISTICS		
\$ Weighted Avg. Market Cap—4 Qtr. Avg.	\$1.8 B	\$1.0 B
Largest Market Cap—4 Qtr. Avg.	\$5.0 B	\$4.3 B
Annualized Standard Deviation—Since Inception*	16.7%	20.6%

*April 1, 1992

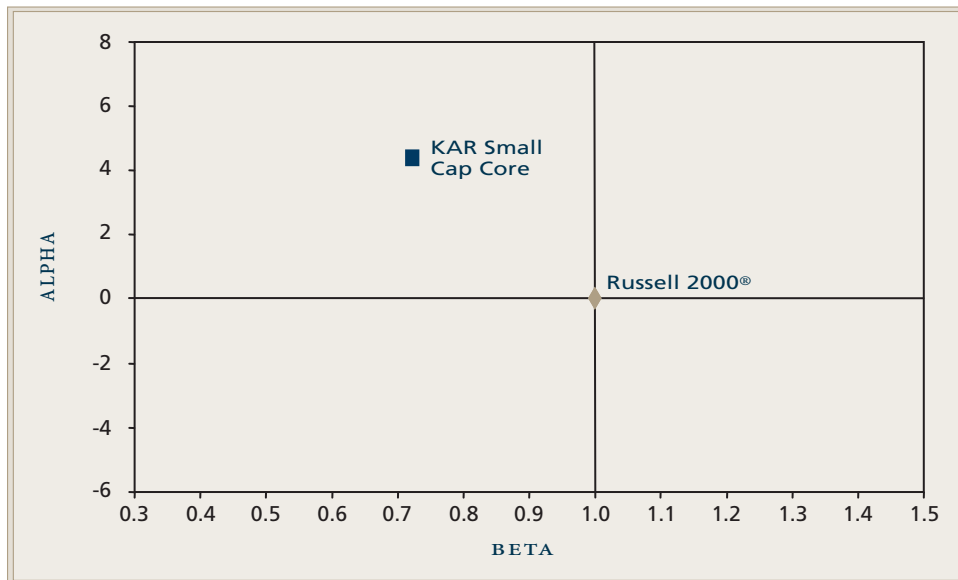
†Free cash flow data is as of March 31, 2010. Prices are as of June 30, 2010. Excludes financials.

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

Data is obtained from Bloomberg, FactSet Research Systems, and a major consulting firm, 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.

RISK-RETURN ANALYSIS

Inception* to June 30, 2010



*April 1, 1992

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HISTORICAL RETURNS

	KAR Small Cap Core (gross)	KAR Small Cap Core (net)†	Russell 2000®
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ANNUALIZED RETURNS (%)*
as of June 30, 2010

2nd Quarter	-4.72	-5.47	-9.92
Year to Date	0.68	-0.72	-1.95
One Year	27.15	24.41	21.48
Three Years	-2.64	-4.39	-8.60
Five Years	3.63	1.77	0.37
Seven Years	8.40	6.09	5.83
Ten Years	7.85	5.30	3.00
Inception‡	11.35	8.43	7.67

ANNUAL RETURNS (%)

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	28.44
1994	2.75	-0.26	-1.82
1993	20.00	16.54	18.90

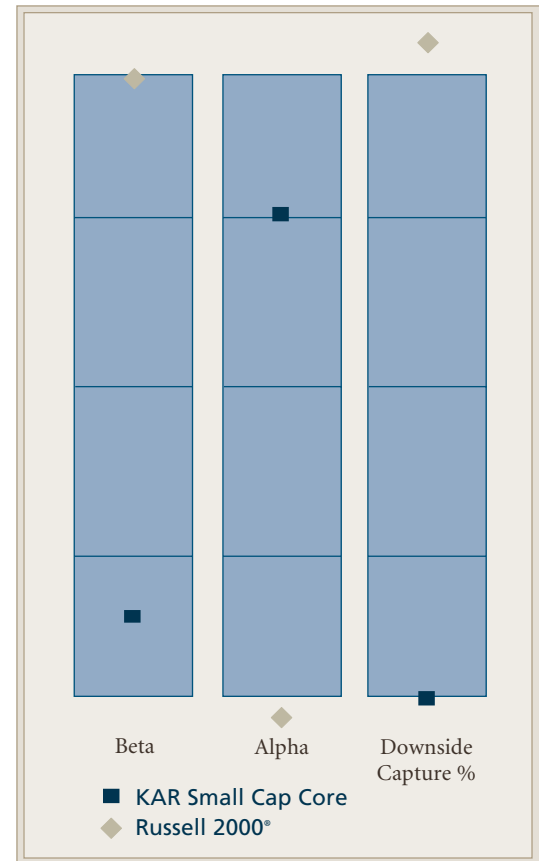
*All periods less than one year are total returns and are not annualized. Returns are preliminary.

†Net of all fees and expenses. Assumes a 3% annual fee.

‡April 1, 1992

PEER COMPARISON CHART

Inception* to March 31, 2010



PERFORMANCE STATISTICS

Inception* to June 30, 2010

	KAR Small Cap Core	Russell 2000®
ANNUALIZED RETURN	11.35	7.67
ANNUALIZED STANDARD DEVIATION	16.74	20.61
ALPHA	4.43	0.00
BETA	0.73	1.00
SHARPE RATIO	0.47	0.20
R-SQUARED	80.37	100.00

*April 1, 1992

This material is deemed supplemental and complements the performance and disclosure at the end of this presentation. For further details on the composite, please see the disclosure statement at the end of this presentation. Past performance is no guarantee of future results. Data is obtained from FactSet Research systems and is assumed to be reliable.

DISCLOSURE

Kayne Anderson Rudnick Investment Management, LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Kayne Anderson Rudnick Investment Management, LLC, a wholly owned subsidiary of Virtus Investment Partners, Ltd., is a registered investment advisor under the Investment Advisors Act of 1940. 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. Additional information regarding the firm's policies and procedures for calculating and reporting performance is available upon request. The firm maintains a complete list and description of composites, which is available upon request.

The composite is defined as all fully discretionary Small Cap Wrap Portfolios (including cash) under management for at least one full quarter. The minimum account size for this composite is \$100,000. 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.

The composite was created in October 1995. There was a change in personnel in January 1998, April 2008, and February 2009. No alteration of the composite as presented here has occurred because of this change.

For periods prior to October 1, 1995, the composite calculations have been linked to the firm's Small Cap actual historical non-wrap fee composite performance. Beginning on October 1, 1995, only eligible advisory wrap fee portfolios are included in composite results. 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.

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. Trade date accounting is used. From April 1, 1992 to December 31, 2005 composite returns are calculated by geometrically linking monthly returns. Beginning January 1, 2006, composite returns are calculated on a quarterly basis by asset weighting individual account returns using beginning of period values. Accounts enter and exit the composite on a quarterly basis.

Gross annual returns will be reduced by investment management fees and other expenses that may be incurred in the management of the account. From April 1, 1992 to December 31, 2005, net annual returns are calculated after the deduction of an assumed maximum annual wrap fee of 3%. 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. The effect of fees on performance would grow at a compounded rate. Over a five-year period, if a \$100,000 portfolio had an annual return of 10%, it would grow to \$161,051. The net compounded effect of a 3% annual investment management fee would total \$20,796 and result in a portfolio value of \$140,255. The historical non-wrap fee composite gross annual performance, as presented, is after commissions on portfolio transactions, which under a wrap fee agreement are included in such wrap fees.

Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	% of Non-Fee Paying Accounts	Gross Annual Return (%)	Net Annual Return (%)	Russell 2000® Annual Return	Annual Standard Deviation
2000	6,686	6	8	0	20.98	17.42	(3.02)	2.54
2001	8,384	11	13	0	6.82	3.74	2.49	0.74
2002	8,612	7	7	0	(13.73)	(16.34)	(20.48)	0.58
2003	10,262	4	<5	0	35.02	31.19	47.25	0.35
2004	10,320	30	16	0	23.07	19.42	18.33	0.00
2005	8,533	79	34	0	7.87	4.63	4.55	0.40
2006	6,523	1,011	51	0	13.46	11.87	18.37	0.46
2007	5,392	847	35	0	3.25	1.71	(1.57)	0.21
2008	3,445	469	49	0	(28.15)	(29.36)	(33.79)	0.42
2009	4,069	565	54	0	31.80	29.72	27.17	0.71

If applicable, the annual standard deviation presented is an asset-weighted calculation of performance dispersion for accounts in the composite for the entire year.

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