SMALL CAP QUALITY VALUE PORTFOLIO
MANAGED ACCOUNTS
Second Quarter 2010

KAYNE ANDERSON RUDNICK
INVESTMENT MANAGEMENT
A VIRTUS INVESTMENT PARTNER

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 Quality Value Portfolio outperformed the Russell 2000 Value Index for the quarter.

The companies that contributed the most to performance during the quarter included CARBO Ceramics and Cass Information Systems. After being one of the lowest performers in the first quarter, CARBO Ceramics' share price rebounded as natural-gas prices rebounded. 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. During the quarter, Cass Information Systems reported record first-quarter earnings, with solid revenue growth in all segments and a double-digit increase in net income.

The companies that contributed the least to performance during the quarter included Federated Investors and Ares Capital. 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. After posting solid returns in April 2010, Ares Capital's stock declined along with other specialty finance peers due to renewed concerns by investors over the general economic environment and increasing funding costs. The stock suffered further following the company's reports of mixed first quarter 2010 results with solid investment portfolio growth, profitability expansion, stable asset quality, and further enhanced capital positioning offset by elevated repayment activity fueled by a stronger-than-anticipated recovery in high-yield debt markets.

PURCHASES AND SALES

In the Small Cap Quality Value Portfolio, we purchased iShares Russell 2000 Value Index and Life Partners Holding. There were no complete sales from the portfolio during the quarter.

Due to the takeouts at the end of the fourth quarter, the portfolio held excess cash. Given that we stay fully invested, we temporarily deployed a portion of the existing cash into the ETF for the Russell 2000 Value Index.

Life Partners Holdings is the oldest and one of the most active companies in the secondary market for life settlement (LS) transactions in the U.S. With its disciplined underwriting culture and solid market positioning, Life Partners Holdings has produced an outstanding combination of strong, consistent organic growth and superior profitability. The company also boasts a healthy (currently debt-free) balance sheet and a solid history of cash dividend payments.

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.

PORTFOLIO HIGHLIGHTS

Style: Small Cap

Sub-Style: Value

Index: Russell 2000® Value

Portfolio Inception: 1998

Portfolio Assets: $954.7 M

Portfolio Turnover: 25%–35%

INVESTMENT MANAGEMENT TEAM

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

TOP FIVE HOLDINGS

as of June 30, 2010

COMPANY	PERCENT *of equity (%)*
Tempur-Pedic International	5.5
Landauer	5.2
Ares Capital	5.0
World Fuel Services	4.8
Syntel	4.6
Total	**25.1**

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 Quality Value strategy. Individual investors' holdings may differ slightly from the representative portfolio.

INVESTMENT PROCESS—DISCOVERING QUALITY

Higher Quality · **Stronger, More Consistent Growth** · **Better Value**

DEVELOPMENT OF HIGH-QUALITY UNIVERSE

200 Stocks

- Low debt balance sheet
- Superior credit metrics
- Low volatility of earnings
- High return on invested capital
- Rising free cash flow
- Strong profit margins

PROPRIETARY FUNDAMENTAL RESEARCH

50-60 Stocks

- Qualitative Analysis
  - Sustainability of business model
  - Management evaluation
  - Risk analysis
- Financial Analysis
  - Long-term growth potential
  - Basis for superior profitability
  - Capital demands of the business
- Valuation Analysis
  - Double-digit expected annualized return over 3-5 years
  - Minimize downside risk
  - Balance historical valuation with potential multiple expansion in peer analysis

SECURITY SELECTION & PORTFOLIO CONSTRUCTION

20-35 Stocks

- Valuation
  - Favorable reward-to-risk
  - Double-digit expected return
  - Attractive within sector
- Diversification
  - Sectors +/- 10% of the Russell 2000® Value
  - Broadly diversified industry mix
- Long-Term Focus
  - Capture business trajectory
  - 3-to-5-year holding period
  - Invest with conviction

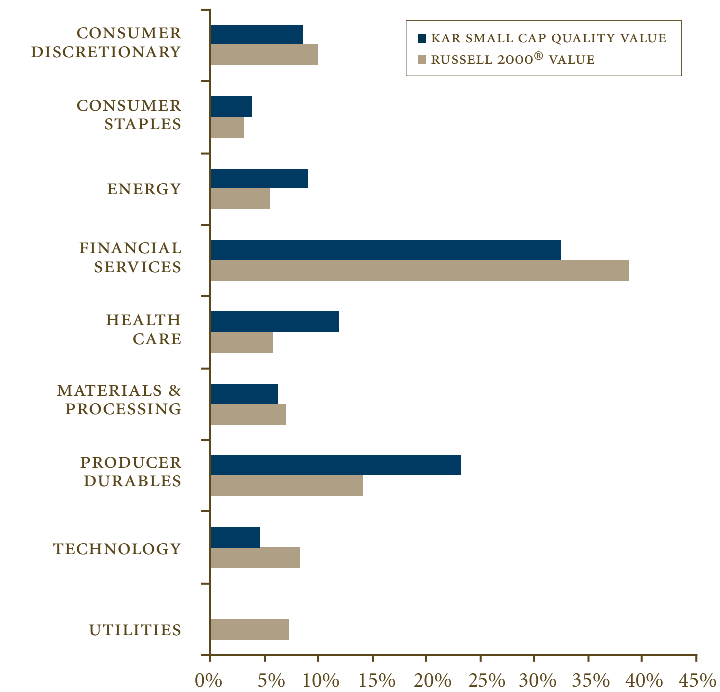
PORTFOLIO & RISK MANAGEMENT

Portfolio Designed for Strong Performance with Lower Risk

- Continuous Evaluation
  - Cultivate an open dialogue with management
  - Channel checks–competitors, suppliers, customers, and consultants
- Add Opportunities
  - Attractive near-term reward-to-risk
  - Better long-term expectations
- Long-Term Focus
  - Extended valuation
  - Portfolio upgrade
  - Diversification requirements
  - Negative company or industry change
  - Acquisition activity

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 Quality Value	Russell 2000® Value
QUALITY		
Return on Equity–Past 5 yrs.	22.2%	7.7%
Total Debt/EBITDA	1.4x	6.9x
Earnings Variance–Past 10 yrs.	24.2%	98.0%
S&P Stock Ranking (A+, A, A-, B+)	81.5%	24.6%
GROWTH		
Earnings Per Share Growth–Past 5 yrs.	9.5%	1.0%
Earnings Per Share Growth–Past 10 yrs.	10.4%	2.6%
Dividend Per Share Growth–Past 5 yrs.	14.9%	0.1%
Dividend Per Share Growth–Past 5 yrs.	12.0%	4.8%
Capital Generation–(ROE x {1-Payout})	15.5%	6.3%
VALUE		
P/E Ratio–Trailing 12 Months	16.3x	24.9x
Dividend Yield	2.6%	2.0%
Free Cash Flow Yield†	5.8%	8.3%
MARKET CHARACTERISTICS		
$ Weighted Avg. Market Cap—4 Qtr. Avg.	$1.5 B	$0.9 B
Largest Market Cap—4 Qtr. Avg.	$5.0 B	$3.5 B
Annualized Standard Deviation—Since Inception*	20.3%	21.9%

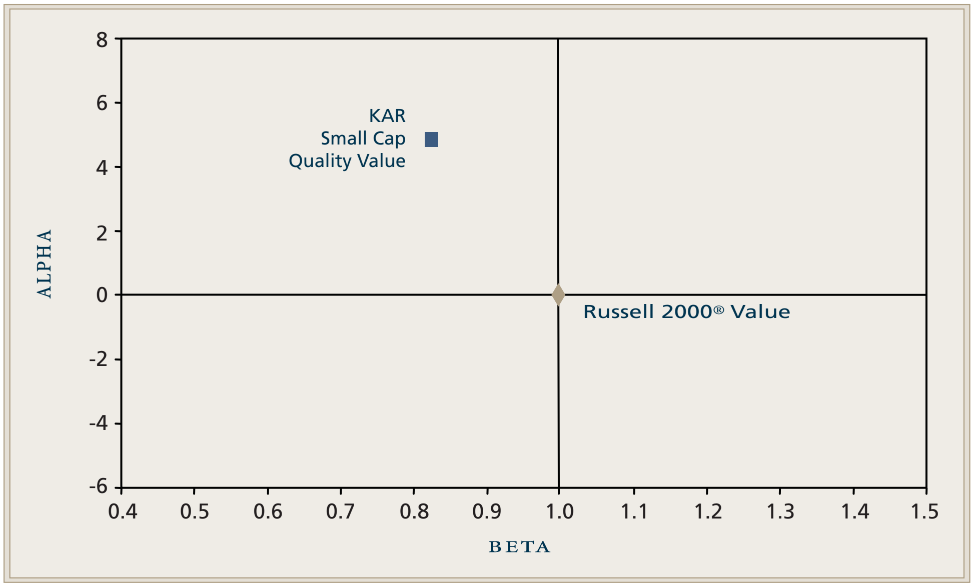
*Actual inception date is June 1, 1998. July 1, 1998 used for calculation purposes of quarterly informationne 1, 1998

†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. Results shown reflect past performance and are not indicative of future results. 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*



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HISTORICAL RETURNS

	KAR Small Cap Quality Value (gross)	KAR Small Cap Quality Value (net)†	Russell 2000® Value
ANNUALIZED RETURNS (%)* *as of June 30, 2010*			
2nd Quarter	-4.09	-4.84	-10.60
Year to Date	1.95	0.75	-1.64
One Year	28.62	26.19	25.07
Three Years	-3.35	-5.10	-9.85
Five Years	4.74	2.82	-0.51
Seven Years	9.25	6.90	6.03
Ten Years	12.02	9.37	7.48
Inception‡	9.41	6.76	5.16
ANNUAL RETURNS (%)			
2009	27.82	25.92	20.58
2008	-28.62	-29.99	-28.92
2007	1.93	0.27	-9.78
2006	23.72	21.87	23.48
2005	8.53	5.31	4.71
2004	27.59	23.80	22.25
2003	22.12	18.59	46.03
2002	0.48	-2.52	-11.43
2001	19.42	16.06	14.03
2000	24.92	21.28	22.83
1999	-7.69	-10.39	-1.49

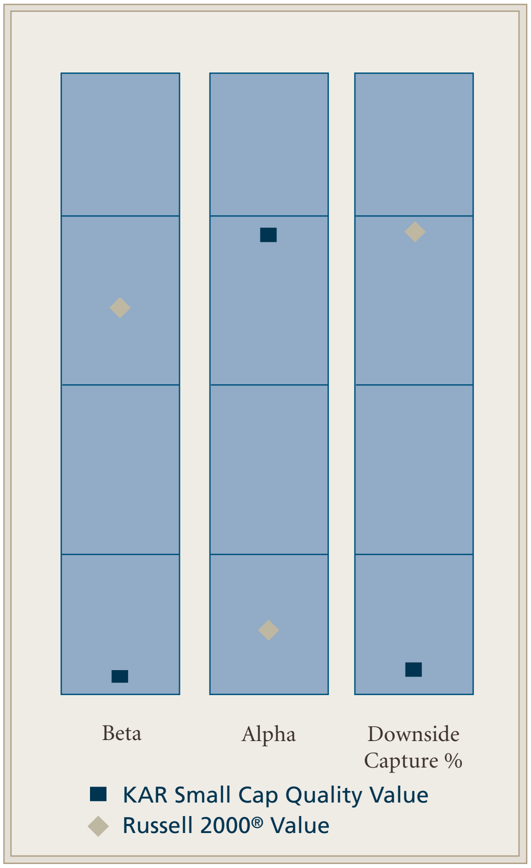
*All periods less than one year are total returns and are not annualized. Returns are preliminary.

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

‡June 1, 1998

PEER COMPARISON CHART

Inception to March 31, 2010*



PERFORMANCE STATISTICS

Inception to June 30, 2010*

	KAR Small Cap Quality Value	Russell 2000® Value
ANNUALIZED RETURN	9.43	5.59
ANNUALIZED STANDARD DEVIATION	20.26	21.88
ALPHA	4.13	0.00
BETA	0.83	1.00
SHARPE RATIO	0.32	0.12
R-SQUARED	79.95	100.00

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

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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 Quality Value 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® 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. The composite was created in January 2002. There was a change in personnel in April 2008 and February 2009.

For periods prior to January 1, 2002, the composite calculations have been linked to the firm's Small Cap Quality Value actual historical non-wrap fee composite performance. These non-wrap-fee portfolios are presented net of commissions on portfolio transactions. Beginning on January 1, 2002, 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 June 1, 1998 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 June 1, 1998 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® Value Annual Return	Annual Standard Deviation
2000	6,686	3	<5	0	24.92	21.28	22.83	0
2001	8,384	< 1	<5	0	19.42	16.06	14.03	0
2002	8,612	< 1	<5	0	0.48	(2.52)	(11.43)	0
2003	10,262	5	<5	0	22.12	18.59	46.03	0
2004	10,320	6	5	0	27.59	23.80	22.25	0.27
2005	8,533	6	10	0	8.53	5.31	4.71	0.09
2006	6,523	571	25	0	23.72	21.87	23.48	0.42
2007	5,392	765	22	0	1.93	0.27	(9.78)	0.33
2008	3,445	441	33	0	(28.62)	(29.99)	(28.92)	0.73
2009	4,069	531	34	0	27.82	25.92	20.58	0.55

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