



## 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 Sustainable Growth Portfolio outperformed the Russell 2000 Growth Index for the quarter.

The companies that contributed the most to performance during the quarter included LoopNet and Omega Flex. LoopNet's stock performed strongly following the company's reports of first quarter 2010 results with a sequential improvement in revenue growth and profitability driven by a lower premium (paying) member cancellation rate. While the commercial real estate (CRE) market conditions remain challenging, the company saw an increase in active property listings driven by "for lease" listings growth providing further evidence that the company is gaining market share in this environment and is well positioned to benefit from the CRE market recovery. Omega Flex is seeing modest improvements in its end markets which, aided by aggressive cost controls, have generated a rebound in profit growth.

The companies that contributed the least to performance during the quarter included Abaxis and Aaron's. Abaxis saw its shares decline in the quarter after earnings were flat due to higher stock compensation charges and increased start-up costs with Abbott's I-Stat device. These expenses are expected to moderate over time. Top-line growth, however, has been positive with gains in both the medical and vet markets. We remain favorable on the long-term prospects for the business and share price. Aaron's had its shares move lower in the quarter after lowering guidance due to the announced divestment of its office furniture business. The company has slowed its new store growth while focusing on existing store profitability. We believe the company should continue to benefit from customer trade-down as the economy tries to find a foothold.

## PURCHASES AND SALES

In the Small Cap Sustainable Growth Portfolio, we purchased LoopNet. There were no complete sales from the portfolio during the quarter.

LoopNet is the leading online marketplace for commercial real estate and businesses for sale in the United States. The company's members can list, search, market, and research CRE properties over the internet reducing their marketing costs, expanding their reach, accelerating the pace of transactions, and enhancing their insights on the market. The company has produced a solid combination of organic growth and strong profitability and boasts a strong, debt-free balance sheet.

## 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: Growth  
Index: Russell 2000® Growth  
Portfolio Inception: 1998  
Portfolio Assets: \$147.3 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>	13
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 (%)
ANSYS	6.6
Blackbaud	6.2
LoopNet	6.0
Flir Systems	6.0
Hittite Microwave	5.9
<b>Total</b>	<b>30.7</b>

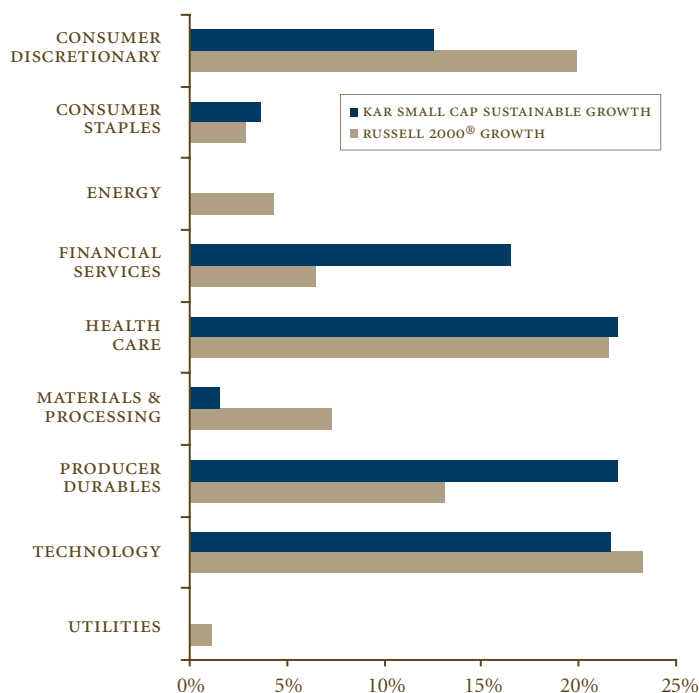
A complete listing of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Holdings are subject to change. Holdings and weightings listed above are based on a representative portfolio of the Kayne Anderson Rudnick Small Cap Sustainable Growth strategy. 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 Sustainable Growth	Russell 2000® Growth
<b>QUALITY</b>		
Return on Equity—Past 5 yrs.	24.9%	11.5%
Total Debt/EBITDA	0.3x	2.5x
Earnings Variance—Past 10 yrs.	26.2%	95.1%
S&P Stock Ranking (A+, A, A-, B+)	52.9%	16.4%
<b>GROWTH</b>		
Earnings Per Share Growth—Past 5 yrs.	16.1%	10.7%
Earnings Per Share Growth—Past 10 yrs.	20.3%	10.5%
Capital Generation—(ROE x {1-Payout})	19.4%	10.5%
<b>VALUE</b>		
P/E Ratio—Trailing 12 Months	22.7x	37.3x
P/E-to-10-Year Growth	1.1x	3.5x
Free Cash Flow Yield†	5.2%	3.6%
<b>MARKET CHARACTERISTICS</b>		
\$ Weighted Avg. Market Cap—4 Qtr. Avg.	\$1.8 B	\$1.1 B
Largest Market Cap—4 Qtr. Avg.	\$4.2 B	\$4.3 B
Annualized Standard Deviation—Since Inception*	22.5%	27.9%

\*January 1, 1998

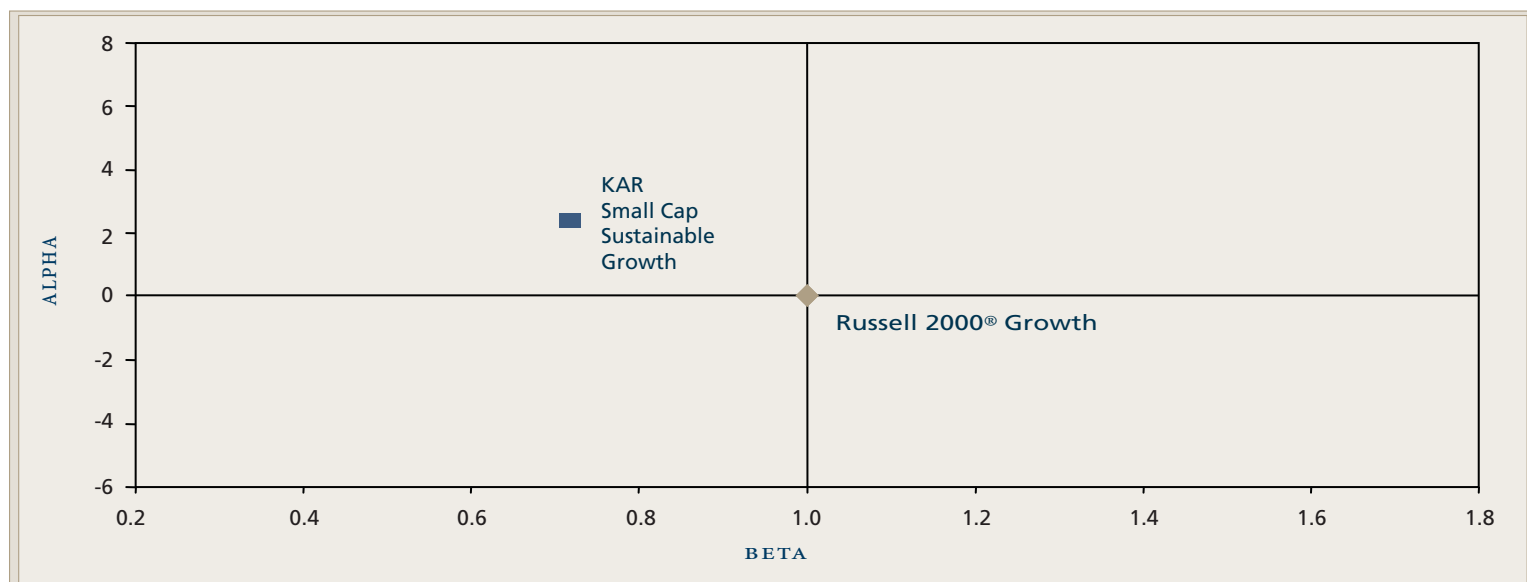
†Free cash flow data is as of March 31, 2010. Prices are as of June 30, 2010. Excludes financials.

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



\*January 1, 1998

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## HISTORICAL RETURNS

	KAR Small Cap Sustainable Growth (gross)	KAR Small Cap Sustainable Growth (net)†	Russell 2000® Growth
<b>ANNUALIZED RETURNS (%)*</b>			
<i>as of June 30, 2010</i>			
2nd Quarter	-7.02	-7.77	-9.22
Year to Date	-2.51	-3.69	-2.31
One Year	16.89	14.30	17.96
Three Years	-4.54	-6.34	-7.54
Five Years	2.49	0.46	1.14
Seven Years	5.45	3.06	5.47
Ten Years	3.26	0.71	-1.72
Inception‡	5.08	2.37	1.68
<b>ANNUAL RETURNS (%)</b>			
2009	39.32	36.77	34.47
2008	-33.73	-34.93	-38.54
2007	-0.61	-2.14	7.05
2006	15.47	13.12	13.35
2005	2.71	-0.39	4.15
2004	13.42	10.02	14.31
2003	39.90	35.88	48.54
2002	-23.82	-26.14	-30.26
2001	0.48	-2.42	-9.23
2000	6.28	3.13	-22.43
1999	31.19	27.42	43.09
1998	3.33	0.20	1.23

\*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.

‡January 1, 1998

## PERFORMANCE STATISTICS

Inception\* to June 30, 2010

	KAR Small Cap Sustainable Growth	Russell 2000® Growth
<b>ANNUALIZED RETURN</b>	5.08	1.68
<b>ANNUALIZED STANDARD DEVIATION</b>	22.49	27.93
<b>ALPHA</b>	2.71	0.00
<b>BETA</b>	0.72	1.00
<b>SHARPE RATIO</b>	0.09	-0.05
<b>R-SQUARED</b>	80.48	100.00

\*January 1, 1998

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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 Sustainable Growth 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® Growth Index. The Russell 2000® Growth Index is a market capitalization-weighted index of growth-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 July 2003. There was a change in personnel in April 2008 and February 2009.

For periods prior to July 1, 2003, the composite calculations have been linked to the firm's Small Cap Sustainable Growth actual historical non-wrap fee composite performance. These non-wrap-fee portfolios are presented net of commissions on portfolio transactions. Beginning on July 1, 2003, 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 January 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 January 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® Growth Annual Return	Annual Standard Deviation
2000	6,686	1	<5	0	6.28	3.13	(22.43)	0.00
2001	8,384	2	<5	0	0.48	(2.42)	(9.23)	0.00
2002	8,612	1	<5	0	(23.82)	(26.14)	(30.26)	0.00
2003	10,262	4	<5	0	39.90	35.88	48.54	0.00
2004	10,320	3	<5	0	13.42	10.02	14.31	0.16
2005	8,533	8	<5	0	2.71	(0.39)	4.15	0.00
2006	6,523	230	10	0	15.47	13.12	13.35	0.49
2007	5,392	147	5	0	(0.61)	(2.14)	7.05	0.20
2008	3,445	74	12	0	(33.73)	(34.93)	(38.54)	0.99
2009	4,069	77	13	0	39.32	36.77	34.47	2.16

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