

# Small Cap Quality Value Portfolio

## Managed Accounts

Third Quarter 2011

*A Focus on Quality Since 1984  
Now Celebrating*



1800 Avenue of the Stars, Second Floor | Los Angeles, California 90067

T 800.231.7414 or 800.638.1496 in CA | [kayne.com](http://kayne.com)

## **Founded in 1984**

- Los Angeles-based investment firm founded by John Anderson and Richard Kayne
- Quality at a Reasonable Price™ philosophy instituted in 1989 with the addition of Allan Rudnick
- Small Cap strategy introduced in 1992 by Robert Schwarzkopf, CFA
- Assets under management totaled \$5.1 billion as of September 30, 2011

## **Proprietary Fundamental Research is Our Lifeblood**

- One of the industry's broadest and deepest research organizations focusing exclusively on high-quality companies
- Extensive (long only) U.S. small, mid, and large-cap equity resources

## **Entrepreneurial Culture and Cohesive Organization**

- Senior management team averages 21 years experience with Kayne Anderson Rudnick
- Culture of meritocracy encourages and rewards investment idea generation and promotes a collegial environment

## **Independently Managed**

- Independently operated subsidiary of Virtus Investment Partners (NASDAQ: VRTS)

# Small and Mid Cap Team

KAYNE ANDERSON RUDNICK

INVESTMENT MANAGEMENT

<b>Portfolio Manager/Analyst</b>	<b>Responsibility</b>	<b>Research Experience</b>	<b>Years with KAR</b>
<b>Robert Schwarzkopf, CFA</b>	Chief Investment Officer & Portfolio Manager	30 Years	20 Years
<b>Doug Foreman, CFA</b>	Director of Equities	25 Years	Less than 1 Year
<b>Julie Kutasov</b>	Portfolio Manager & Senior Research Analyst Sector Coverage: Producer Durables and Financials	10 Years	10 Years
<b>Craig Stone</b>	Portfolio Manager & Senior Research Analyst Sector Coverage: Producer Durables and Energy	22 Years	11 Years
<b>Todd Beiley, CFA</b>	Senior Research Analyst Sector Coverage: Health Care	12 Years	9 Years
<b>Jon Christensen, CFA</b>	Senior Research Analyst Sector Coverage: Consumer	16 Years	10 Years
<b>Craig Thrasher, CFA</b>	Research Analyst Sector Coverage: Financials, Producer Durables, and Utilities	6 Years	3 Years
<b>Gregory Toppe, CFA</b>	Research Analyst Sector Coverage: Materials & Processing, Producer Durables, and Technology	11 Years	3 Years
<b>Institutional Client Services</b>	<b>Responsibility</b>	<b>Industry Experience</b>	<b>Years with KAR</b>
<b>Daniela Bailly</b>	Director – Consultant Relations	16 Years	9 Years
<b>Stephanie Gillman</b>	Director – Institutional Client Services	18 Years	12 Years
<b>Aaron Reed, CIMA &amp; CIMC</b>	Director – Institutional Sales North America	21 Years	4 Years

# Representative Clients

KAYNE ANDERSON RUDNICK

INVESTMENT MANAGEMENT

## **Corporate**

Coffman Engineers  
Lewitt, Hackman, et al.  
Morley Group  
Tennant Company

## **Endowments & Foundations**

American College of Trust and Estate  
Brethren Benefit Trust  
Dumont Foundation  
Leon Jaworski Foundation  
Nebraska Methodist Health System  
San Francisco Opera Association  
Santa Barbara Zoological Foundation  
Scripps Research Foundation  
Texas Presbyterian Foundation  
William Hannon Foundation

## **Insurance**

Dorchester Insurance Co., Ltd.  
Topa Insurance

## **Public Funds & State Societies**

Champaign Police  
Chicago Transit Authority  
City of Aurora Police  
City of Deerfield Beach  
City of North Miami  
City of Sunrise Police  
Elgin Police Pension Board  
Rockford Police Pension Fund  
The Maywood Police Pension Fund

## **Universities**

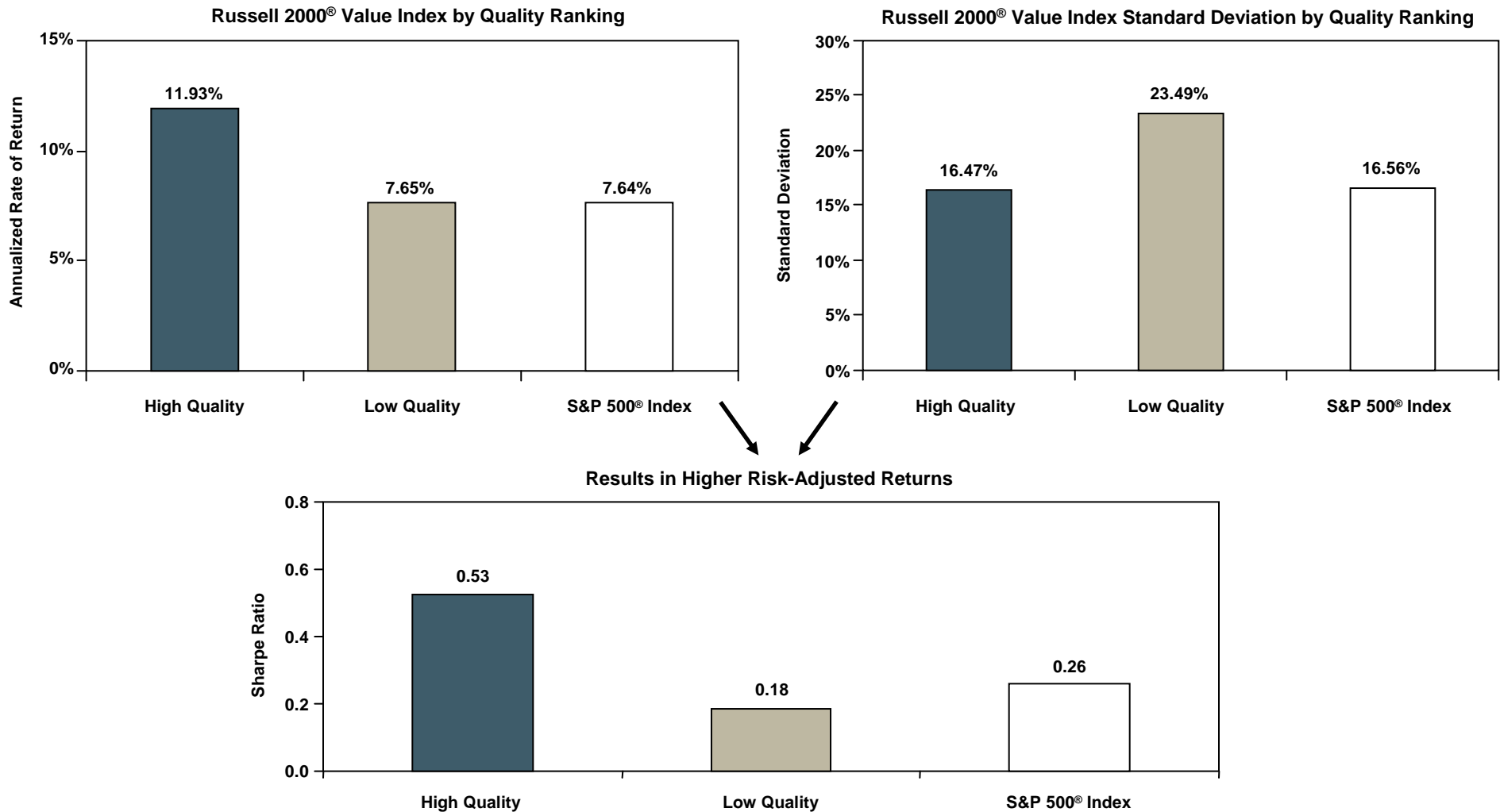
The Governors of the University of Alberta  
Waynesburg University

*The above is a partial list of representative clients whose names have been chosen based on their universal name recognition only. It is not known whether the client approves or disapproves of Kayne Anderson Rudnick Investment Management, LLC or the investment advisory services provided. This list is provided for informational purposes only. It does not constitute an endorsement or testimonial by these clients.*



# Validation of Quality

Higher Quality Outperformed With Less Risk  
20 Years Ending September 30, 2011



Returns are annualized for the 20 years ending September 30, 2011. Data is obtained from FactSet Research Systems and is assumed to be reliable.

Past performance is no guarantee of future results.

S&P High Quality – Stocks in the Russell 2000® Value Index with an S&P quality ranking of B+ or higher.

S&P Low Quality – Stocks in the Russell 2000® Value Index with an S&P quality ranking of B or less.

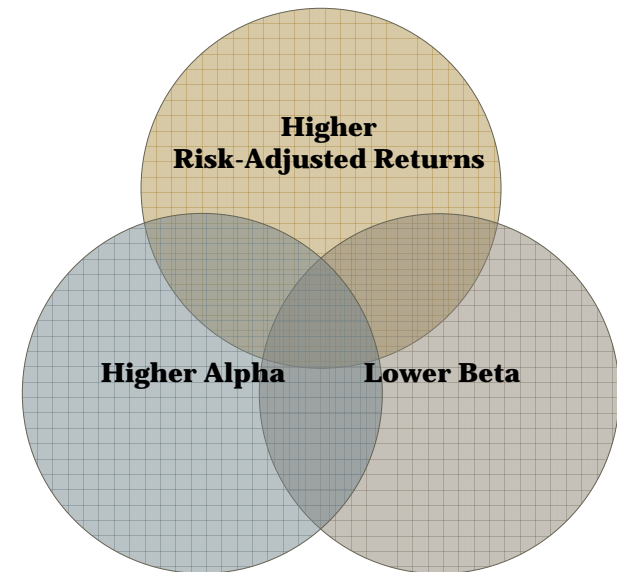
# Investment Objectives

*We believe that quality businesses that outgrow their markets and are purchased at discount valuations will lead to superior risk-adjusted returns over a full market cycle.*

The “Next Generation of Blue Chips”  
Quality at a Reasonable Price™



Small Cap Value Returns, S&P 500® Risk



# How Are We Different?

We Manage Risk and Generate Returns Differently

## Investment Objective: Small Cap Value Returns, S&P 500® Risk

### RISK

KAR Approach	Classic Approach
<ul style="list-style-type: none"> <li>• 20-35 stock portfolio                             <ul style="list-style-type: none"> <li>▪ 3% to 8% positions in high-quality companies</li> </ul> </li> <li>• Each company has:                             <ul style="list-style-type: none"> <li>▪ Minimal business risk</li> <li>▪ Minimal balance sheet risk</li> <li>▪ Minimal profit risk</li> </ul> </li> <li>• 2 years of negative returns since 1998                             <ul style="list-style-type: none"> <li>▪ 87% downside capture</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 75 stock portfolio                             <ul style="list-style-type: none"> <li>▪ 1% to 2% positions</li> </ul> </li> <li>• No stock can hurt more than 2%</li> <li>• 5 years of negative returns since 1998</li> </ul>

### RETURNS

KAR Approach	Classic Approach
<ul style="list-style-type: none"> <li>• Exceptional companies producing exceptional returns on capital</li> <li>• Buy at attractive price and let exceptional returns on capital drive exceptional growth and income over extended period of time</li> <li>• 36 to 60 months average holding period</li> <li>• Low frictional costs due to less trading</li> <li>• Inherent tax efficiency</li> <li>• 5% annual alpha (risk-adjusted excess return)</li> </ul>	<ul style="list-style-type: none"> <li>• Average companies producing average return on capital</li> <li>• Buying cheap and selling dear required for above-average portfolio returns</li> <li>• 6 months average holding period</li> <li>• High frictional costs due to rapid trading</li> <li>• Poor tax efficiency due to short holding periods</li> </ul>

## Results: Strong Risk-Adjusted Returns with Higher Alpha and Lower Beta

Data as of September 30, 2011. Past performance is no guarantee of future results.

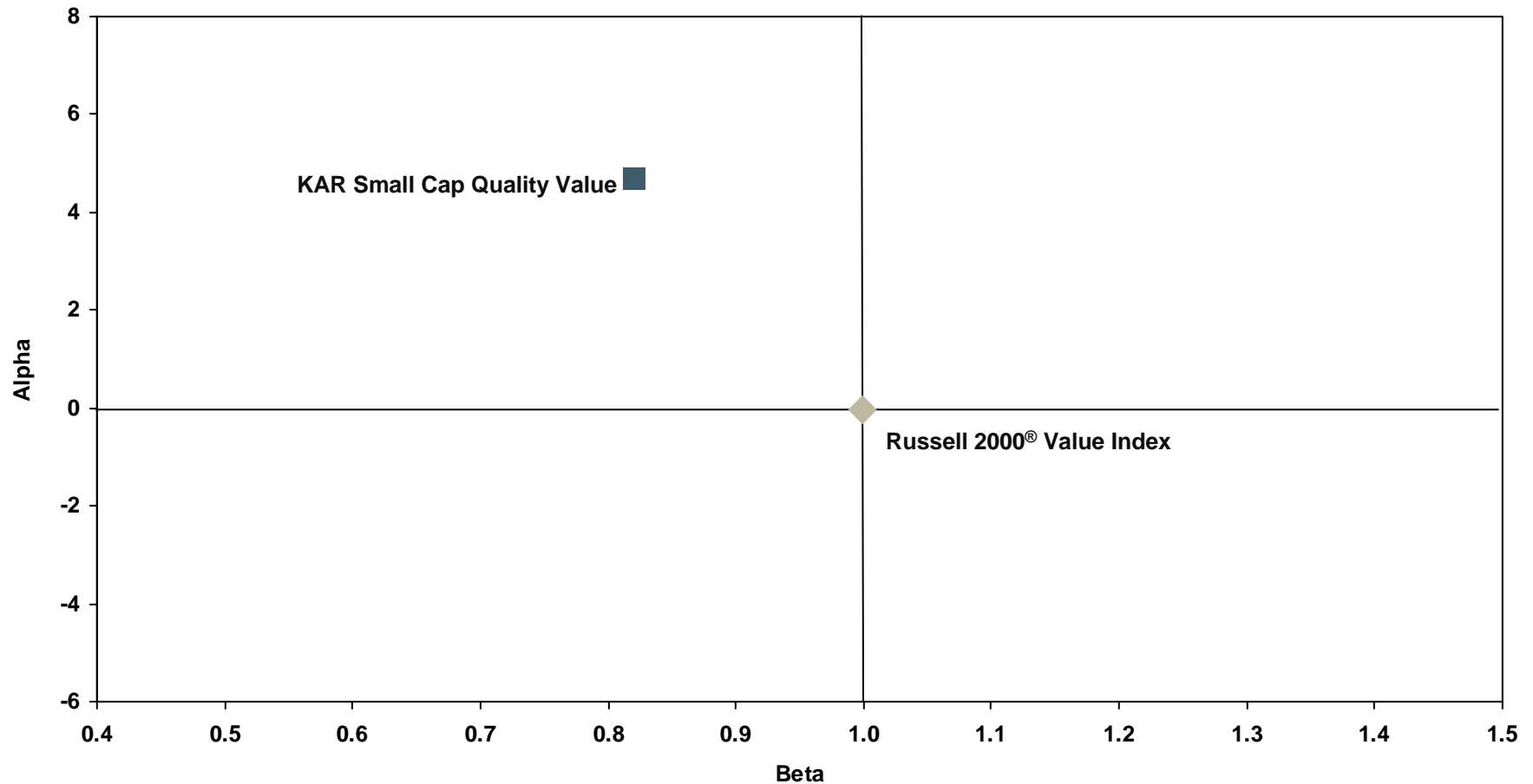
Statistics provided are calculated from July 1, 1998. The portfolio's actual inception date is June 1, 1998. July 1, 1998 is used for calculation purposes of quarterly information.

# Proof Statement

U.S. Small Cap Quality Value Equity  
Inception\* to September 30, 2011

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INVESTMENT MANAGEMENT



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

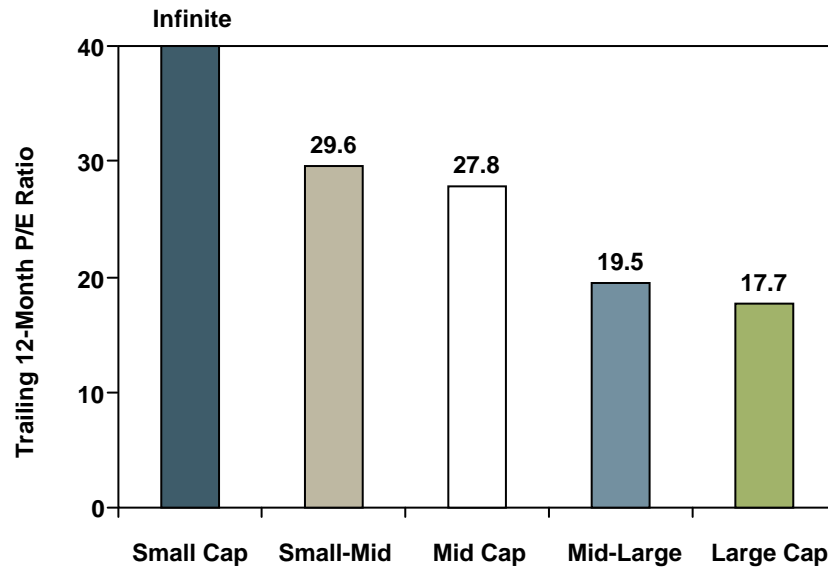
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*For further details on the composite, please see the disclosure statement in this presentation. Past performance is no guarantee of future results. Data is obtained from FactSet Research Systems and is assumed to be reliable.*

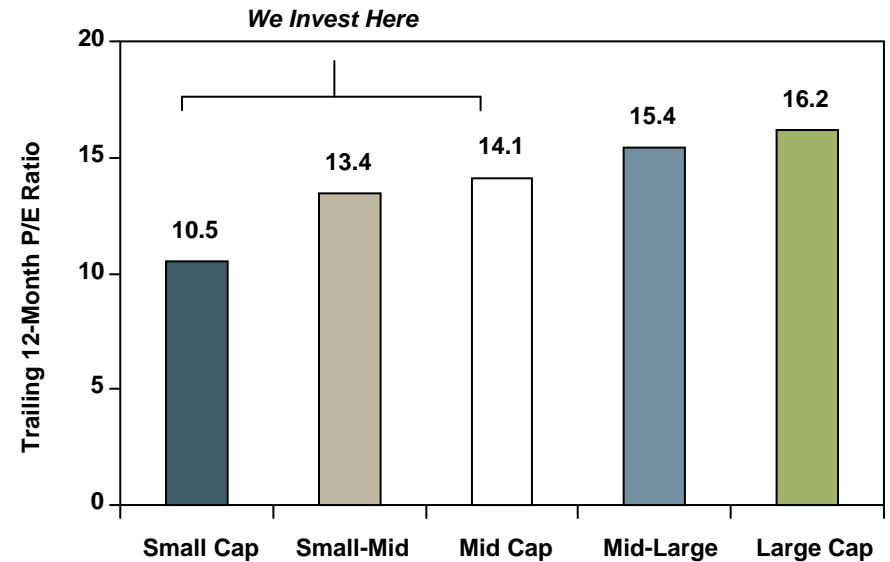
# Why High-Quality Small Cap?

Quality at Reasonable Price™

All Companies



Companies With a Return on Equity of 15% or Greater



Market Cap  
(In \$Billions)

\$1.7 & Below   \$1.7-4.3   \$4.3-12.6   \$12.6-42.4   \$42.4 & Above

\$1.7 & Below   \$1.7-4.3   \$4.3-12.6   \$12.6-42.4   \$42.4 & Above

# Source of Quality

U.S. Small Cap Quality Value Equity  
Competitive Advantage

KAYNE ANDERSON RUDNICK

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## **Brand Franchise: *WD-40 Company***

- Leading producer of lubricants, hand cleaners, and household cleaners including the #1 household brand, WD-40, and other well known products such as 3-In-One Oil, X-14, 2000 Flushes, and Carpet Fresh



## **Switching Costs: *Jack Henry & Associates***

- Once in place, Jack Henry's core processing system becomes highly integrated with a bank's operations making switching to a new vendor both costly and potentially disruptive to their business



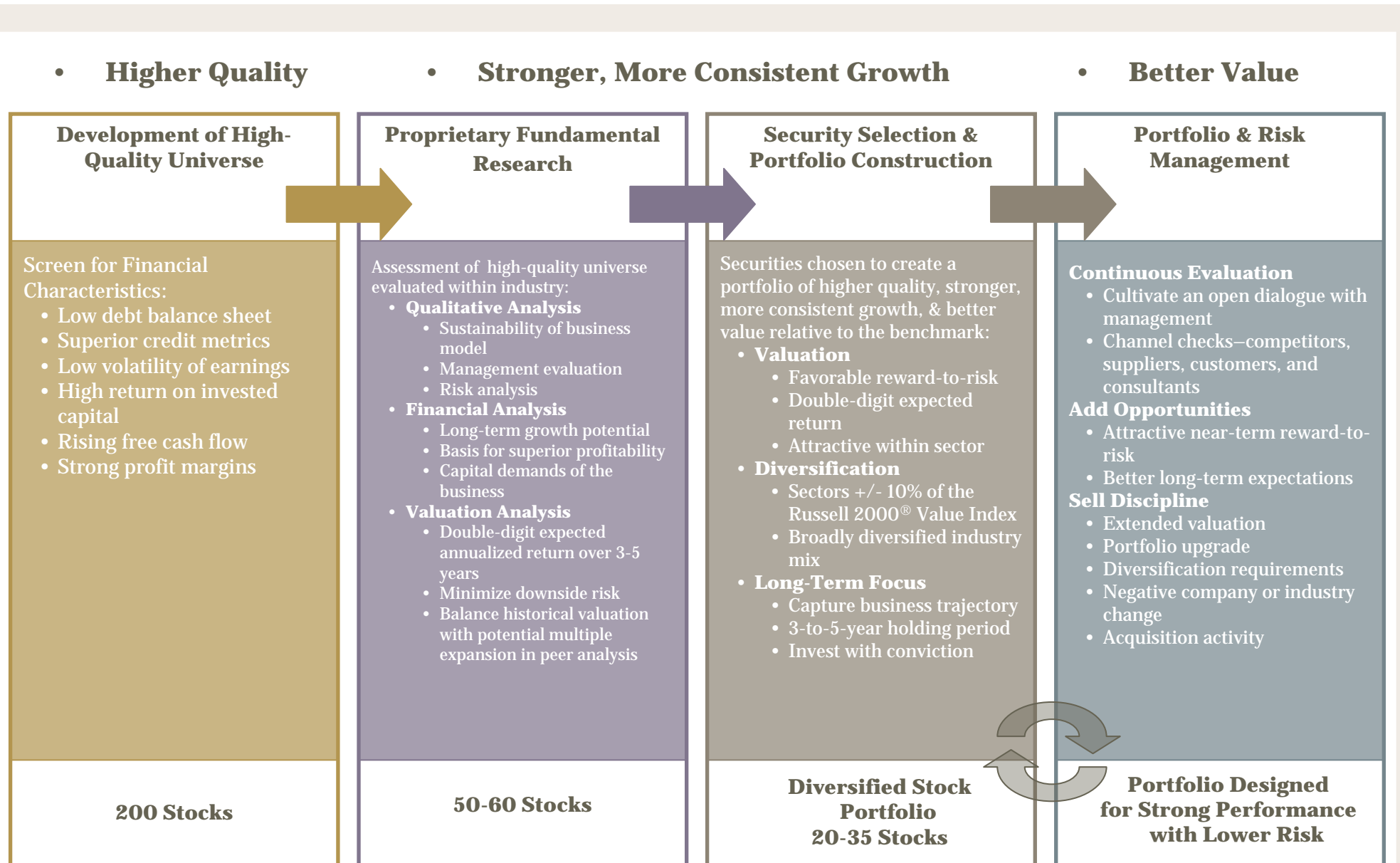
## **Network Effect: *Landstar System***

- With the largest network of independent sales agents and a large network of dedicated and non-dedicated truck capacity, Landstar is able to add value for their shipping customers by lowering their cost and for their capacity providers through access to more freight

*The securities presented on this page are chosen based upon objective criteria. Companies are chosen to exemplify diversification. We typically select companies that operate in large, vast industries, but have overwhelming market share for their particular niches. All information is provided for informational purposes only and should not be deemed as a recommendation to purchase the securities mentioned. It should not be assumed that securities recommended in the future will be profitable. A complete list of portfolio holdings and specific securities transactions for the preceding 12 months is available upon request. Holdings are subject to change.*

# Investment Process

Discovering Quality



## Extended Valuation

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- Significant premium to intrinsic value
- Expected annual return provides insufficient equity risk premium

## Portfolio Upgrade

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- Enhance quality characteristics
- Accelerate growth profile
- Improve value metrics

## Diversification Requirements

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- Rebalance within sector controls
- Improve industry mix

## Negative Company or Industry Changes

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- Position review research report written for any of the following conditions:
  - Stock price declines 20% or more in a short time period absent a broad market decline
  - Validity deteriorates for one or more of the reasons for purchase
  - Credit-quality profile deteriorates
- Quality parameters reviewed by the Chief Investment Officer with the Portfolio Managers

## Acquisition Activity

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- Our holding acquired at an attractive premium
- Our holding acquires a company diminishing its business or value

# Portfolio Characteristics

Higher Quality, Stronger, More Consistent Growth, & Better Value  
U.S. Small Cap Quality Value Equity — As of September 30, 2011

KAYNE ANDERSON RUDNICK

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	KAR Small Cap Quality Value	Russell 2000® Value Index
<b>Quality</b>		
Return on Equity—Past 5 Years	<b>21.8%</b>	6.9%
Total Debt/EBITDA	<b>0.8 x</b>	6.4 x
Earnings Variance—Past 10 Years	<b>22.4%</b>	96.6%
S&P Stock Ranking (A+, A, A-, B+)	<b>80.4%</b>	23.2%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	<b>7.7%</b>	-0.3%
Earnings Per Share Growth—Past 10 Years	<b>11.7%</b>	3.6%
Dividend Per Share Growth—Past 5 Years	<b>9.5%</b>	-2.5%
Dividend Per Share Growth—Past 10 Years	<b>12.6%</b>	2.6%
Capital Generation—{ROE x (1-Payout)}	<b>15.3%</b>	5.5%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	<b>14.7x</b>	16.6x
Dividend Yield	<b>2.3%</b>	2.5%
Free Cash Flow Yield <sup>‡</sup>	<b>4.6%</b>	1.8%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—4 Qtr. Average	<b>\$2.0 B</b>	\$1.1 B
Largest Market Cap—4 Qtr. Average	<b>\$3.7 B</b>	\$3.7B
Annualized Standard Deviation—Since Inception*	<b>20.3%</b>	22.3%

In a market of commodity 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 get 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.

<sup>†</sup>Description reflects past results and is not an indicator of future performance results.

<sup>‡</sup>Free cash flow data is as of June 30, 2011. Prices are as of September 30, 2011. Excludes financials.

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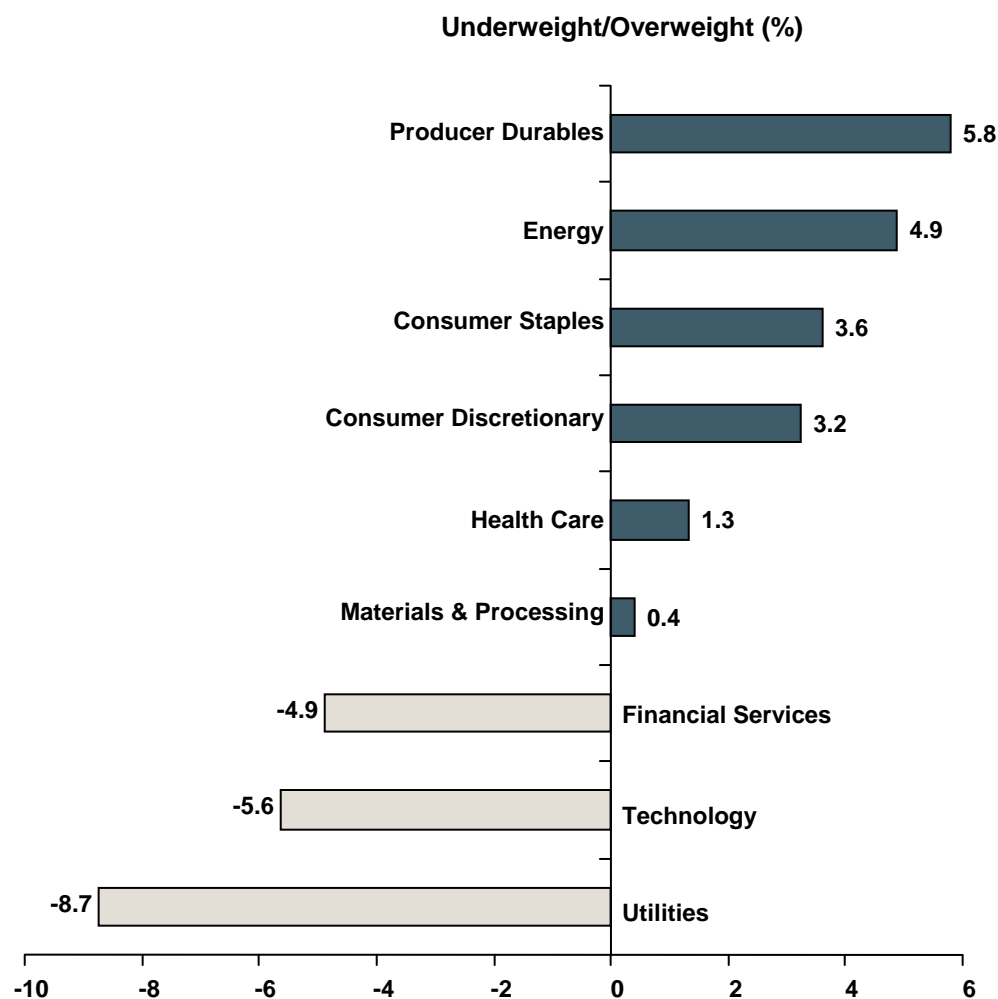
Data is obtained from Bloomberg, FactSet Research Systems, and a major consulting firm and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information.

# Sector Weights

U.S. Small Cap Quality Value Equity

As of September 30, 2011

	Portfolio (%)	Russell 2000® Value Index (%)
Producer Durables	19.6	13.8
Energy	8.6	3.7
Consumer Staples	6.7	3.1
Consumer Discretionary	15.1	11.9
Health Care	6.8	5.5
Materials & Processing	7.5	7.1
Financial Services	31.3	36.2
Technology	4.4	10.0
Utilities	—	8.7



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# Conviction-Driven Investing Provides Opportunities for Excess Return

U.S. Small Cap Quality Value Equity — As of September 30, 2011

KAYNE ANDERSON RUDNICK

INVESTMENT MANAGEMENT

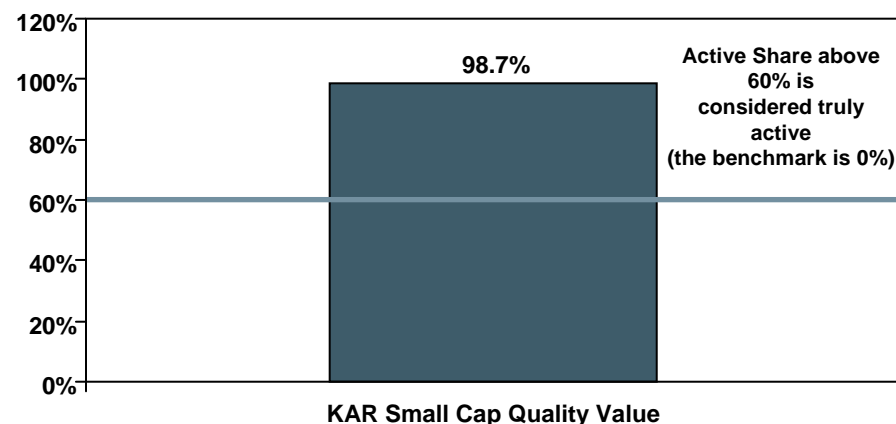
## Research confidence leads to large active weights

Top 10 Holdings	Russell Sector	% of Portfolio
WD-40	Consumer Staples	5.6
First Cash Financial Services	Financial Services	5.4
John Wiley & Sons	Consumer Discretionary	5.4
World Fuel Services	Energy	5.3
Owens & Minor	Health Care	5.3
Landstar System	Producer Durables	5.3
RLI	Financial Services	5.0
Tempur-Pedic International	Consumer Discretionary	4.9
Hillenbrand	Consumer Discretionary	4.8
Ares Capital	Financial Services	4.7

## The strategy benefits from diversification while still taking significant active positions

	KAR Small Cap Quality Value	Russell 2000® Value Index
# of Holdings	28	1,345
Average Position Size (%)	3.6	0.1
Weight of Top Ten Holdings (%)	51.7	4.5

## Investment research drives portfolio construction, which results in high active share



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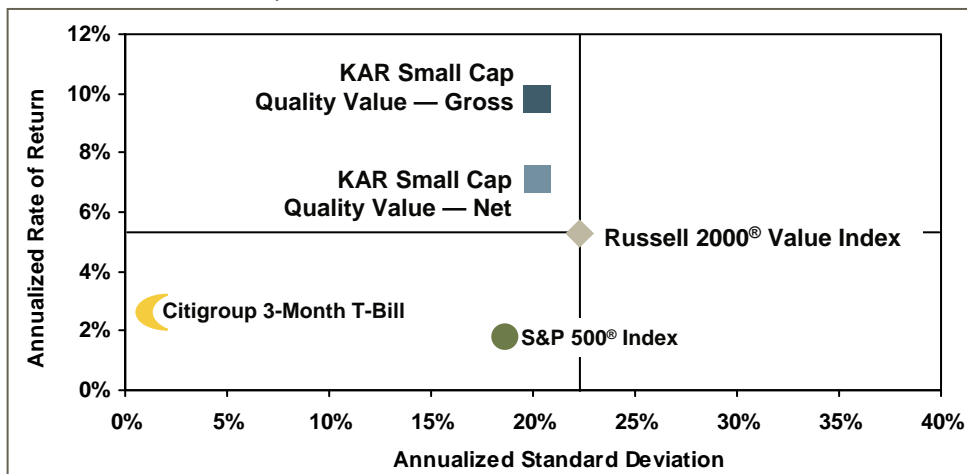
*Data is obtained from FactSet Research Systems and is assumed to be reliable. A complete list of portfolio holdings and specific security transactions for the preceding 12 months is available upon request. Portfolio holdings are subject to change. The sector information represented above is based on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

# Strong Risk-Adjusted Returns Driven by Strong Stock Selection

U.S. Small Cap Quality Value Equity — Periods Ending September 30, 2011

## Meaningful Returns with Lower Volatility

Annualized Since Inception\*

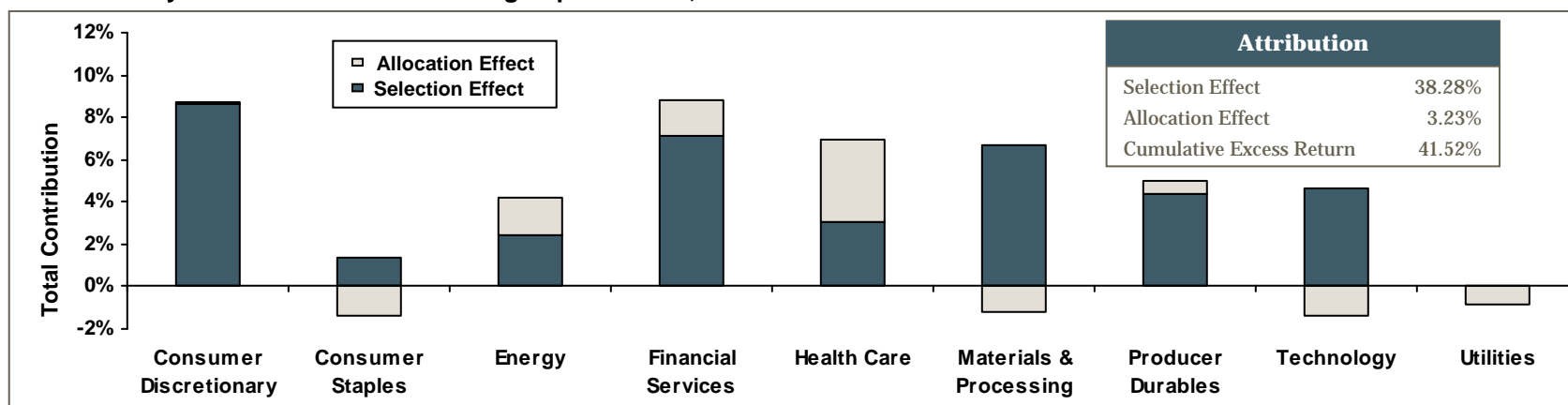


## Strong Risk-Adjusted Performance Metrics

Annualized Since Inception\*

Summary Statistics	KAR Small Cap Quality Value	Russell 2000® Value Index
Alpha	4.72	0.00
Sharpe Ratio	0.35	0.12
Standard Deviation	20.26	22.29
Semi-Standard Deviation	24.94	28.89
Beta	0.82	1.00
Tracking Error	9.54	0.00

## Attribution by Sector — Five Years Ending September 30, 2011



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

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# Returns

## U.S. Small Cap Quality Value Equity

### Annualized Performance

Period Ending 9/30/11	Gross (%)	Net (%)	Index (%)	Excess Return (bps)
1 Year	7.09	4.72	-5.99	1308
3 Years	7.33	5.40	-2.78	1011
5 Years	4.31	2.48	-3.08	739
7 Years	7.89	5.79	1.99	590
10 Years	10.56	8.08	6.47	409
Since Inception*	9.76	7.17	5.22	454

### Calendar Year Performance

Periods Ending 12/31	Gross (%)	Net (%)	Index (%)	Excess Return (bps)
2010	24.76	22.81	24.50	26
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	534
2003	22.12	18.59	46.03	-2391
2002	0.48	-2.52	-11.43	1191
2001	19.42	16.06	14.03	539
2000	24.92	21.28	22.83	209
1999	-7.69	-10.39	-1.49	-620
1998†	9.61	7.99	-10.93	2054

\*June 1, 1998

†Performance for 1998 is for seven months only.

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All periods less than one year are total returns and are not annualized. Annualized performance for the Kayne Anderson Rudnick composite is preliminary.

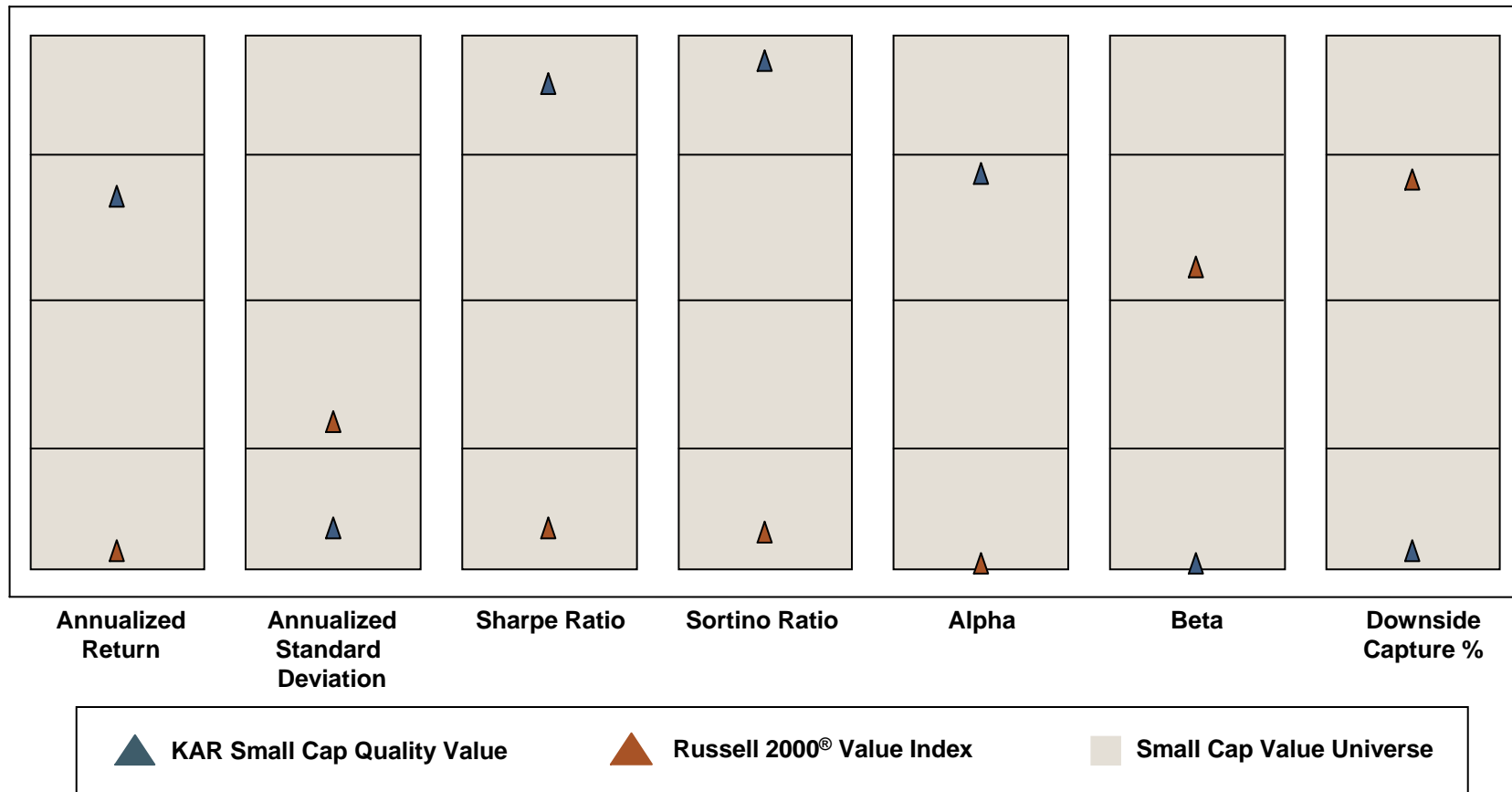
For further details on the composite, please see the disclosure statement in this presentation. Past performance is no guarantee of future results.

# Small Cap Value Universe

U.S. Small Cap Quality Value Equity  
Inception\* to June 30, 2011

KAYNE ANDERSON RUDNICK

INVESTMENT MANAGEMENT



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

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

Returns for the Kayne Anderson Rudnick Small Cap Quality Value composite are gross of fees. For further details on the composite, please see the disclosure statement in this presentation. Past performance is no guarantee of future results. Management fees are described in Part II of our form ADV, which is available upon request. Gross annual returns will be reduced by investment management fees and other expenses that may be incurred in the management of the account. Net annual returns have been calculated after the deduction of an assumed maximum annual fee of 3%. The effect 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.

- Consistent philosophy, approach, and team since inception
- Exclusive focus on high quality
- Highly disciplined fundamental research process
- Portfolios structured for higher quality, stronger, more consistent growth, and better value
- Historically strong performance

The Small Cap Quality Value Portfolio is also available as a mutual fund. We are the sub-advisor to the Virtus Quality Small-Cap Fund — PQSAX (A-Shares); PQSCX (C-Shares). For more information on this fund, please visit [www.virtus.com](http://www.virtus.com).

# Biographies

## Executive Management



**Robert A. Schwarzkopf, CFA**, is Chief Investment Officer, a Portfolio Manager for the Small and Mid Cap Equity Portfolios, and a member of the Executive Management Committee. He has approximately 30 years of equity research experience. Before joining Kayne Anderson Rudnick in 1991, Mr. Schwarzkopf was a member of the Investment Policy Committee at the Pilgrim Group of Mutual Funds and Portfolio Manager for Pilgrim Regional Bankshares. He earned a B.S. and an M.S. in Mathematics from the University of Miami. Mr. Schwarzkopf is a Chartered Financial Analyst charterholder and a member of the CFA Society of Los Angeles, Inc.



**Stephen A. Rigali, CFA**, is Executive Vice President and a member of the Executive Management Committee. He has approximately 30 years of experience in the investment management industry. Before joining Kayne Anderson Rudnick in 1991, Mr. Rigali was a Vice President at Shearson Lehman Brothers. Mr. Rigali earned a B.S. in Business and Economics from Loyola Marymount University. He is a Chartered Financial Analyst charterholder and a member of the CFA Society of Los Angeles, Inc.



**Jeannine G. Vanian** is Chief Operating Officer and a member of the Executive Management Committee. Ms. Vanian has approximately 24 years of experience in the investment management industry, including 22 years with Kayne Anderson Rudnick. Ms. Vanian attended The American University in Cairo, Egypt.

# Biographies

## Small and Mid Cap Team



**Robert A. Schwarzkopf, CFA**, is Chief Investment Officer, a Portfolio Manager for the Small and Mid Cap Equity Portfolios, and a member of the Executive Management Committee. He has approximately 30 years of equity research experience. Before joining Kayne Anderson Rudnick in 1991, Mr. Schwarzkopf was a member of the Investment Policy Committee at the Pilgrim Group of Mutual Funds and Portfolio Manager for Pilgrim Regional Bankshares. He earned a B.S. and an M.S. in Mathematics from the University of Miami. Mr. Schwarzkopf is a Chartered Financial Analyst charterholder and a member of the CFA Society of Los Angeles, Inc.



**Doug Foreman, CFA**, is Director of Equities with primary responsibilities for evolving all aspects of the equity investment process, including the research tools used by the equity team, and for overseeing product development. He has approximately 25 years of investment experience. Before joining Kayne Anderson Rudnick in 2011, Mr. Foreman was Director of Equities at HighMark Capital Management and before that he was Group Managing Director and Chief Investment Officer of U.S. equities at Trust Company of the West (TCW). He earned a B.S. in marine engineering from The U.S. Naval Academy and an M.B.A. with a concentration in finance from Harvard University. Mr. Foreman is a Chartered Financial Analyst charterholder.



**Julie Kutasov** is a Portfolio Manager and a Senior Research Analyst with primary research responsibilities for the small and mid-capitalization producer-durables and financials sectors. Before joining Kayne Anderson Rudnick in 2001, she worked at Goldman Sachs in a program focused on investment management for high-net worth individuals and at Arthur Andersen as a Senior Associate leading teams that provided financial-audit and business-advisory services to a variety of clients in service-related industries. Ms. Kutasov holds a Certified Public Accountant license (currently inactive) in the state of California. She has approximately 10 years of equity research experience. Ms. Kutasov earned a B.A. in Business Economics from the University of California, Los Angeles, where she graduated summa cum laude, and an M.B.A. from Harvard Business School.



**Craig Stone** is a Portfolio Manager and a Senior Research Analyst with primary research responsibilities for the small and mid-capitalization producer-durables and energy sectors. He has approximately 22 years of equity research experience. Before joining Kayne Anderson Rudnick in 2000, Mr. Stone was a Portfolio Manager at Doheny Asset Management. He earned a B.S. in International Business from San Francisco State University and an M.B.A. from the University of Southern California.

# Biographies

## Small and Mid Cap Team



**Todd Beiley, CFA**, is a Senior Research Analyst with primary research responsibilities for the small and mid-capitalization health-care sector. Before joining Kayne Anderson Rudnick in 2002, he worked as an Associate Analyst in equity research at Prudential Securities and before that was an Equity Research Associate at RNC Capital Management. He has approximately 12 years of equity research experience. Mr. Beiley earned a B.S. in Finance from Northern Arizona University and an M.B.A. from the University of Southern California. Mr. Beiley is a Chartered Financial Analyst charterholder.



**Jon K. Christensen, CFA**, is a Senior Research Analyst with primary research responsibilities for the small and mid-capitalization consumer sectors. Before joining Kayne Anderson Rudnick in 2001, Mr. Christensen was a Portfolio Manager and Senior Research Analyst for Doheny Asset Management and has approximately 16 years of equity research experience. He earned a B.S. in Mathematics/Applied Science from the University of California, Los Angeles, and an M.B.A. from the California State University, Long Beach. Mr. Christensen is a Chartered Financial Analyst charterholder.



**Craig Thrasher, CFA**, is a Research Analyst with primary research responsibilities for the small and mid-capitalization financials, producer-durables, and utilities sectors. Before joining Kayne Anderson Rudnick in 2008, Mr. Thrasher worked at Kirr, Marbach & Company as an Equity Analyst and at Wedbush Morgan Securities in correspondent credit. He has approximately six years of equity research experience. Mr. Thrasher earned a B.S. in Business and Public Administration, concentration in Finance, from the University of Arizona, and an M.B.A. from the University of Chicago, Graduate School of Business. Mr. Thrasher is a Chartered Financial Analyst charterholder.



**Gregory Toppe, CFA**, is a Research Analyst with primary research responsibilities for the small and mid-capitalization materials and processing, producer durables, and technology sectors. Before joining Kayne Anderson Rudnick in 2008, Mr. Toppe worked at Mt. Eden Investment Advisors as an Equity Analyst and at Fisher Investments as a Research Analyst and Portfolio Specialist for the institutional group. He has approximately 11 years of equity research experience. Mr. Toppe earned a B.A. in History from Marquette University, a B.B.A. in Finance from the University of Wisconsin, Milwaukee, and an M.B.A. from the University of Wisconsin, Madison, where he participated in the Applied Security Analysis Program. Mr. Toppe is a Chartered Financial Analyst charterholder.

# Biographies

## Institutional Client Services Team



**Daniela Bailly** is Director – Consultant Relations. She has approximately 16 years of experience in the investment management industry. Before rejoining Kayne Anderson Rudnick in 2009, Ms. Bailly was Vice President of Marketing at Bjurman, Barry & Associates, where she covered the central territories as well as National Sales, working closely with Portfolio Managers and Management. Before that position, she was an Internal Wholesaler and Key Accounts Manager for the Advisory Services Group for Kayne Anderson Rudnick.



**Stephanie Gillman** is Director – Institutional Client Services. Ms. Gillman has approximately 18 years of experience in the investment management industry. Before joining Kayne Anderson Rudnick in 1999 as a Marketing Analyst, Ms. Gillman was a Senior Communications Specialist at Capital Guardian Trust Company and a Marketing Associate at Mercer Global Advisors, a financial-planning firm based in Santa Barbara, California. Ms. Gillman earned a B.A. in Business Economics from the University of California, Santa Barbara.



**Aaron A. Reed, CIMA, CIMC**, is Director – Institutional Sales North America. He has approximately 21 years of experience in the investment management industry. Before joining Kayne Anderson Rudnick in 2007, Mr. Reed was a Vice President covering several investment solutions for Nuveen Investments in the Midwest. Before that position, he was Vice President for Nicholas Applegate responsible for marketing managed money and mutual funds. Mr. Reed earned a B.S. in Economics, with a minor in Business Finance, from Oklahoma City University. He is a member of the Investment Management Consultants Association. Mr. Reed earned the Certified Investment Management Analyst (CIMA) designation from the Wharton School at the University of Pennsylvania and the Certified Investment Management Consultant (CIMC) designation from George Washington University.

# Disclosure

## U.S. Small Cap Quality Value Equity

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 Advisers 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.

The composite is defined as all fully discretionary, wrap fee Small Cap Quality Value portfolios (including cash) under management for at least one full quarter. Small Cap Quality Value portfolios are invested in equity securities with market 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. 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. Benchmark returns are not covered by the report of the independent verifiers. The composite was created in January 2002. The firm maintains a complete list and description of composites, which is available upon request.

Accounts that experience a significant cash flow, defined as aggregate flows that exceed 25% of the beginning of period market value, are removed from the composite for the quarter the significant cash flow occurs. The account remains excluded until it has been invested without further significant cash flows for one full calendar quarter. Additional information regarding the firm's policies and procedures for calculating and reporting performance and for the treatment of significant cash flows is available upon request.

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. The minimum account size for the Small Cap Quality Value non-wrap fee composite was \$250,000. These non-wrap fee portfolios are presented net of commissions on portfolio transactions. Beginning on January 1, 2002, only eligible wrap fee portfolios are included in composite results.

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. As of January 1, 2002, pure gross returns do not reflect the deduction of any expenses, including trading costs. 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 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. Wrap fees include all charges for trading costs, portfolio management, custody, and other administrative expenses.

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

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 (%)	Annual Standard Deviation (%)
2001	8,384	Less than 1	0%	Less than 5	19.42	16.06	14.03	N/A
2002	8,612	Less than 1	0%	Less than 5	0.48	(2.52)	(11.43)	N/A
2003	10,262	5	100%	Less than 5	22.12	18.59	46.03	N/A
2004	10,320	6	100%	5	27.59	23.80	22.25	0.27
2005	8,533	6	100%	10	8.53	5.31	4.71	0.09
2006	6,523	571	100%	25	23.72	21.87	23.48	0.42
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%	34	24.76	22.81	24.50	0.75

\*Beginning January 1, 2002, 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.