



Kayne Anderson Rudnick  
Investment Management

Small Cap Quality Value Portfolio  
Managed Accounts  
Second Quarter 2020

[kayne.com](http://kayne.com)

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# Firm Overview

As of June 30, 2020



Kayne Anderson Rudnick  
Investment Management

## Profile

- Originally established to manage founder capital
- Over three decades of experience
- A differentiated “business analyst” investment approach focusing on high-quality businesses
- A disciplined and repeatable investment process that produces high-conviction portfolios
- A wholly owned, independent subsidiary of Virtus Investment Partners

## At a Glance

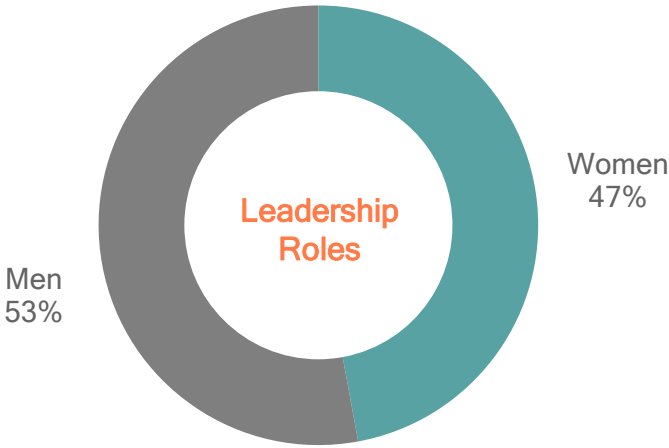
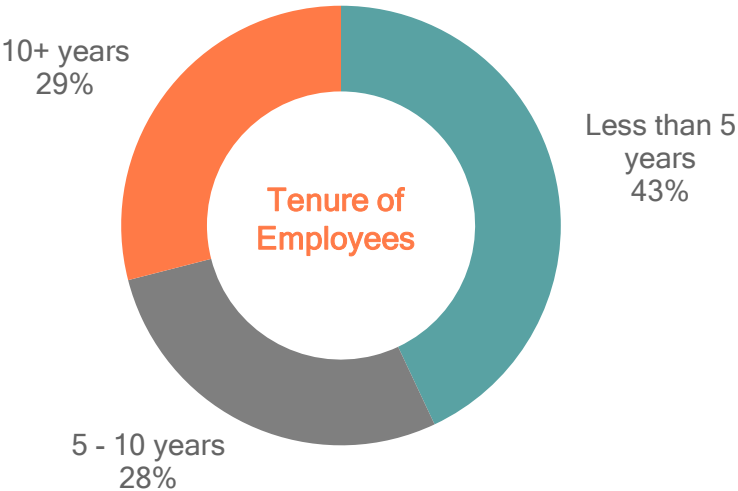
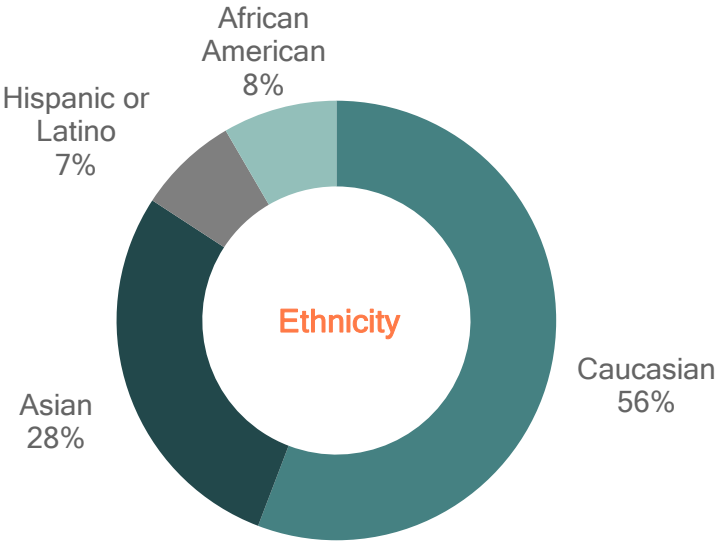
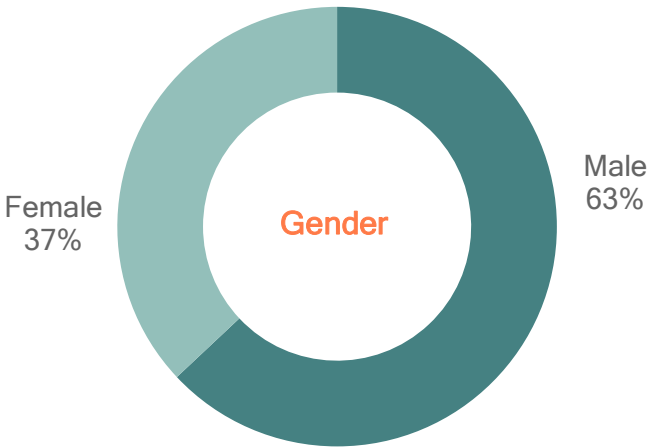
Year Founded	1984
Headquarters	Los Angeles, CA
AUM	\$37.0 billion
Number of Equity Investment Professionals	16
Average Investment Experience	17 Years

# Employee Statistics

As of June 30, 2020



Kayne Anderson Rudnick  
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Numbers may not always add up due to rounding.

# Small Cap Quality Value Team



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Portfolio Manager/Analysts	Responsibility	Research Experience	Years with KAR
Douglas S. Foreman, CFA	Chief Investment Officer	34 Years	9 Years
Julie Kutasov	Portfolio Manager and Senior Research Analyst Sector Coverage: Materials and Processing	19 Years	19 Years
Craig Stone	Portfolio Manager and Senior Research Analyst Sector Coverage: Producer Durables	31 Years	20 Years
Todd Bailey, CFA	Senior Research Analyst Sector Coverage: Energy and Consumer Discretionary	21 Years	18 Years
Julie Biel, CFA	Senior Research Analyst Sector Coverage: Technology	12 Years	7 Years
Jon Christensen, CFA	Senior Research Analyst Sector Coverage: Health Care	25 Years	19 Years
Chris Wright, CFA	Senior Research Analyst Sector Coverage: Financials	8 Years	8 Years
Sean Dixon	Research Analyst Sector Coverage: Consumer Discretionary and Producer Durables	11 Years	2 Years
Adam Xiao, CFA	Research Analyst Sector Coverage: Consumer Staples, Financials and Producer Durables	5 Years	2 Years
Jordan Greenhouse	Managing Director - Senior Portfolio Specialist and Relationship Manager	23 Years <sup>†</sup>	4 Years
James B. May, CFA	Managing Director - Portfolio Specialist	32 Years <sup>†</sup>	1 Year

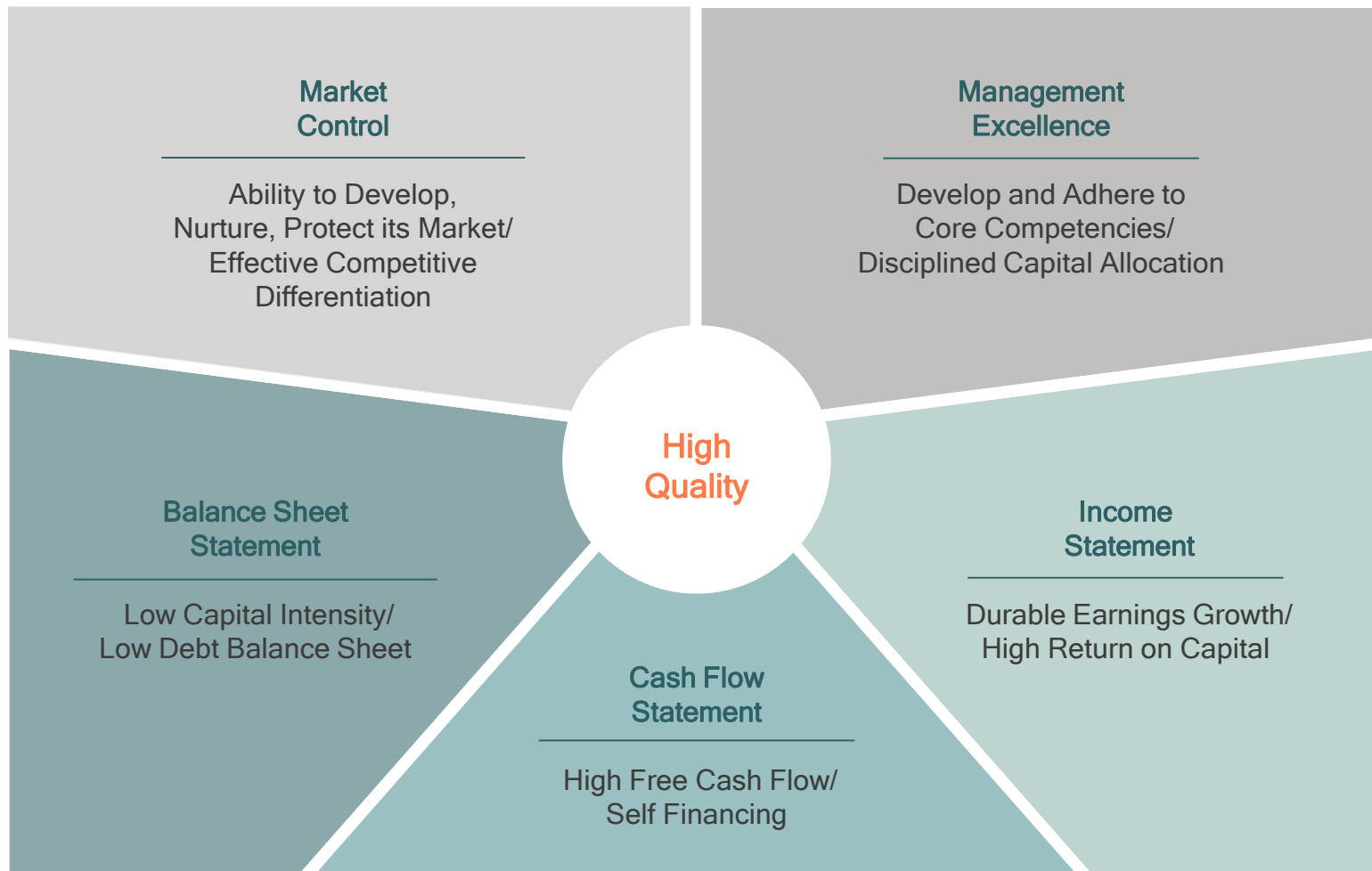
<sup>†</sup>Represents years of industry experience.

### Investment Philosophy

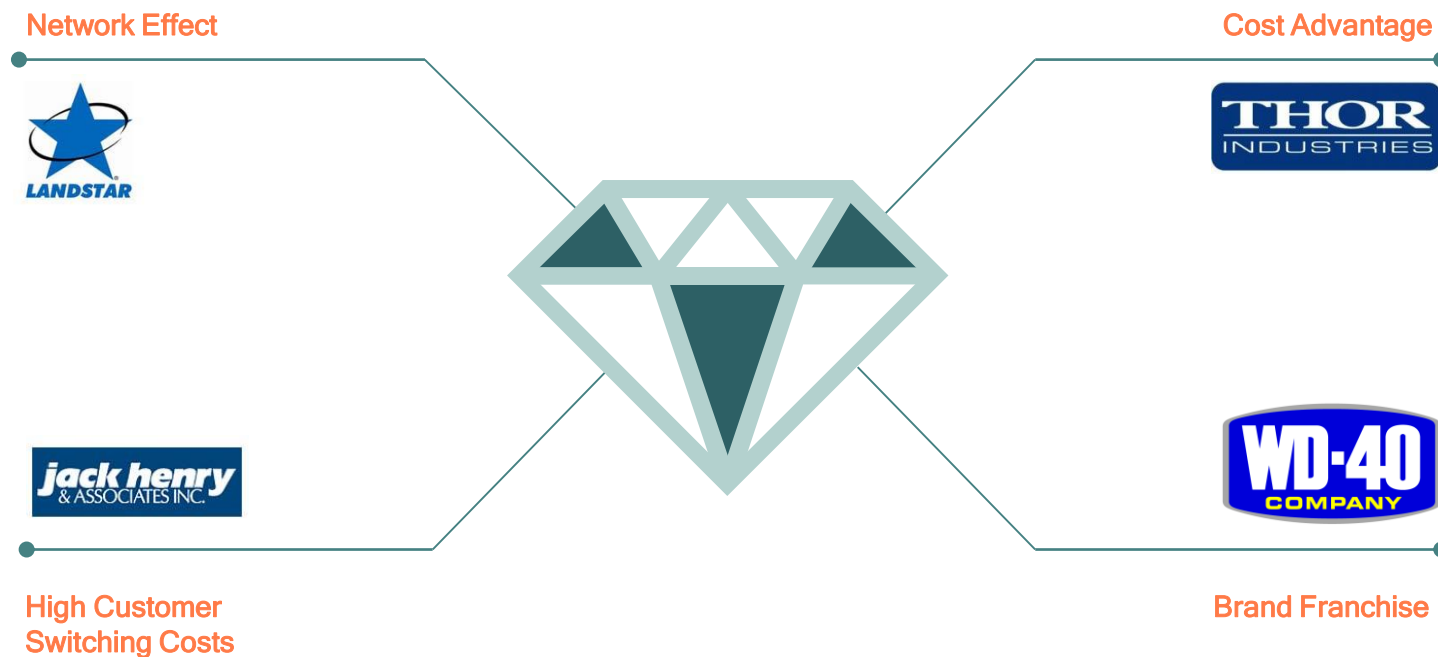
We believe that purchasing high-quality businesses with competitive protections at attractive valuations will achieve excess returns over a complete market cycle

### Investment Objectives

- To achieve a return meaningfully above that of the Russell 2000® Value Index
- To achieve this return objective with a portfolio that exhibits lower overall risk characteristics



## Examples of High-Quality Business Models



*The securities presented on this page are chosen based upon objective, non-performance based criteria and are current holdings of the strategy. 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 security transactions for the preceding 12 months is available upon request. Holdings are subject to change. Individual investors' holdings may differ slightly.*

# Investment Process Overview

## A Business Analyst Approach

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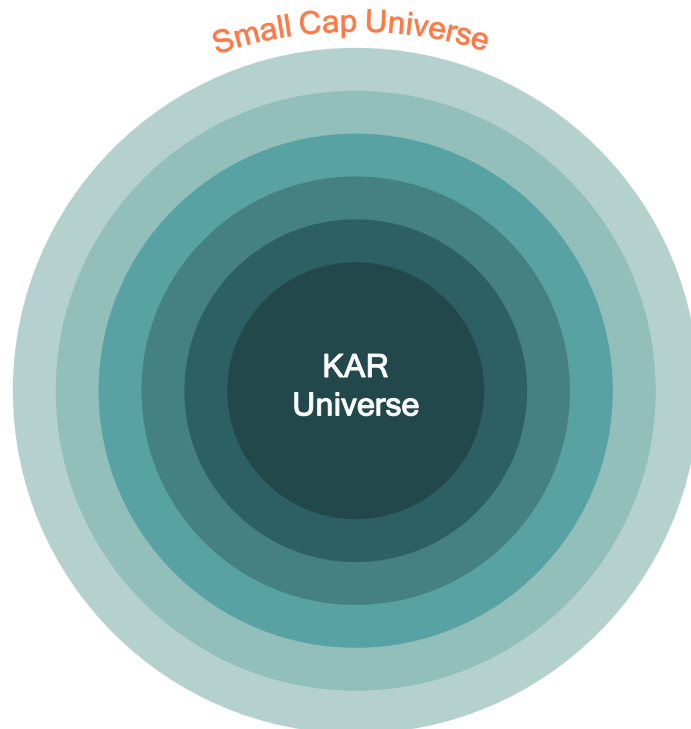


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## We source our investment universe in a number of ways



### Quantitative Screens

- High return on capital over a full economic cycle
- Long and resilient earnings history
- High return on net operating assets
- Minimal debt

### Other Resources

- Research on existing portfolio holdings
- Meetings with companies
- Industry reviews
- Investment conferences
- Third-party research



Research analysts and portfolio managers work together to develop in-depth business knowledge



#### Qualitative Analysis

**Purpose:** Determine if competitive advantage exists and evaluate its strength.

- Review regulatory filings, company materials, industry data, and third party research
- Conduct comprehensive interviews with management; contact other relevant parties
- Understand basis of competition within industry
- Assess competitive threats and obsolescence risk: What protects the business?

#### Financial Analysis

**Purpose:** Evaluate source, level, and sustainability of economic profitability.

- Seek: High and resilient return on capital
- Seek: Persistent earning power
- Seek: Abundant discretionary cash flow
- Seek: Under-levered balance sheet
- Assess management's capital allocation practices; favor high insider ownership

#### Valuation Analysis

**Purpose:** Estimate total return over several year period; compare to other opportunities considering varying levels of certainty

- Consider economic earning power in relation to enterprise value
- Mispricing can be created by: Underfollowed company, investors' over-reaction to short-term challenges, improved competitive position not yet recognized

### Investment Guidelines

<b>Position Weights</b>	<ul style="list-style-type: none"><li>• 20-35 holdings</li><li>• Maximum initial position size is 5% (at cost)</li><li>• Maximum position size is 10% (at market)</li></ul>
<b>Sector Tolerances</b>	<ul style="list-style-type: none"><li>• Seek broad diversification, but no sector constraints</li></ul>
<b>Non-U.S. Holdings</b>	<ul style="list-style-type: none"><li>• Up to 20%</li></ul>
<b>Holding Period</b>	<ul style="list-style-type: none"><li>• Typically 3-to-5 years, but is often longer</li><li>• Portfolio turnover typically 25% to 35%</li></ul>
<b>Cash Levels</b>	<ul style="list-style-type: none"><li>• Typically will not exceed 10% once a portfolio is fully invested; review by CIO triggered if over 10%</li></ul>

### Sell Discipline

<b>Extended Valuation</b>	<ul style="list-style-type: none"><li>• Significant premium to intrinsic value</li><li>• Expected annual return insufficient</li></ul>
<b>Portfolio Upgrade</b>	<ul style="list-style-type: none"><li>• Better business</li><li>• Better price</li></ul>
<b>Acquisition Activity</b>	<ul style="list-style-type: none"><li>• Our holding acquired at an attractive premium</li><li>• Our holding acquires a company diminishing its business or value</li></ul>
<b>Negative Company or Industry Changes</b>	<ul style="list-style-type: none"><li>• Position review research report written for any of the following conditions:<ul style="list-style-type: none"><li>- Stock price declines 20% or more in a short time period absent a broad market decline</li><li>- Validity deteriorates for one or more of the reasons for purchase</li><li>- Credit-quality profile deteriorates</li></ul></li><li>• Quality parameters reviewed by the Chief Investment Officer with the Portfolio Managers</li></ul>

# 4 | Investment Process

## Risk Management & Portfolio Monitoring



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### Risk Management

<b>Investment Philosophy</b>	<ul style="list-style-type: none"> <li>• Focus on “high-quality” companies</li> <li>• Company’s “business risk” is primary risk control factor</li> </ul>
<b>Portfolio Level Controls</b>	<ul style="list-style-type: none"> <li>• Broad sector diversification</li> <li>• Individual security weights initiated at 2% to 5% of portfolio</li> </ul>
<b>Position Reviews</b>	<ul style="list-style-type: none"> <li>• “Position Review” report when a portfolio holding declines 20% absent a broad market decline</li> <li>• Re-validate reasons for original purchase or sell position</li> </ul>
<b>Trading Guidelines</b>	<ul style="list-style-type: none"> <li>• Guidelines provided by Portfolio Managers when entering and exiting portfolio holdings</li> <li>• Relative benchmarks and transaction costs are monitored in real time to ensure investments are implemented both efficiently and effectively</li> </ul>

### Portfolio Monitoring

<b>Risk and Compliance Committee</b>	<ul style="list-style-type: none"> <li>• Meets quarterly to independently evaluate portfolio risk exposures with findings presented to the Chief Investment Officer</li> </ul>
<b>CIO/PM Meetings</b>	<ul style="list-style-type: none"> <li>• Provides a forum for the Chief Investment Officer and the Portfolio Managers to review, discuss, and explain each strategy’s portfolio positioning and its performance</li> </ul>
<b>Research Meetings</b>	<ul style="list-style-type: none"> <li>• Provides a forum to discuss and evaluate portfolio holdings and overall industry trends</li> </ul>
<b>Performance Analytics and Portfolio Attribution</b>	<ul style="list-style-type: none"> <li>• Allows Portfolio Managers to quantify investment decisions and understand drivers of return and risk characteristics</li> </ul>

# Portfolio Characteristics

Higher Quality, Stronger, More Consistent Growth, & Better Value  
Small Cap Quality Value Portfolio – As of June 30, 2020



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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>	8.4%
Total Debt/EBITDA	<b>3.1 x</b>	9.4 x
Earnings Variability—Past 10 Years	<b>34.3%</b>	70.6%
<b>Growth</b>		
Earnings Per Share Growth—Past 5 Years	<b>9.6%</b>	6.3%
Earnings Per Share Growth—Past 10 Years	<b>8.6%</b>	6.6%
Dividend Per Share Growth—Past 5 Years	<b>11.9%</b>	6.4%
Dividend Per Share Growth—Past 10 Years	<b>8.9%</b>	7.2%
Capital Generation—{ROE x (1-Payout)}	<b>13.3%</b>	5.8%
<b>Value</b>		
P/E Ratio—Trailing 12 Months	<b>30.0 x</b>	23.5 x
Dividend Yield	<b>1.5%</b>	2.3%
Free Cash Flow Yield†	<b>4.1%</b>	6.3%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap—3-Year Average	<b>\$3.6 B</b>	\$2.0 B
Largest Market Cap—3-Year Average	<b>\$10.8 B</b>	\$6.8 B
Annualized Standard Deviation—Since Inception*	<b>19.2%</b>	21.3%

In a market of average businesses, we seek to 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 seek to own companies producing self-funded strong, consistent growth sustainable into the future.

And we have historically been able to achieve 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.

†Free cash flow data is as of March 31, 2020. Prices are as of June 30, 2020. 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.**

# Summary of Key Differentiators



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<b>Philosophy</b>	<ul style="list-style-type: none"><li>• We believe that purchasing high-quality businesses with competitive protections at attractive valuations will achieve excess returns over a complete market cycle</li></ul>
<b>Process</b>	<ul style="list-style-type: none"><li>• A “business analyst” approach with a long-term perspective</li><li>• Extensive fundamental research to develop an information advantage</li><li>• High-conviction portfolios to isolate the best opportunities for our clients</li></ul>
<b>People</b>	<ul style="list-style-type: none"><li>• Over three decades of experience managing small-cap strategies</li><li>• 8 dedicated small cap investment professionals</li></ul>
<b>Performance</b>	<ul style="list-style-type: none"><li>• Investment returns sourced from the business’ exceptional returns on capital</li><li>• Only 4 annual periods of negative returns since 1998 versus 8 for the Russell 2000® Value Index</li></ul>

- **Portfolio Data**
- **Biographies**
- **Representative Client List**
- **Disclosure**



# Sector Weights

## Small Cap Quality Value Portfolio

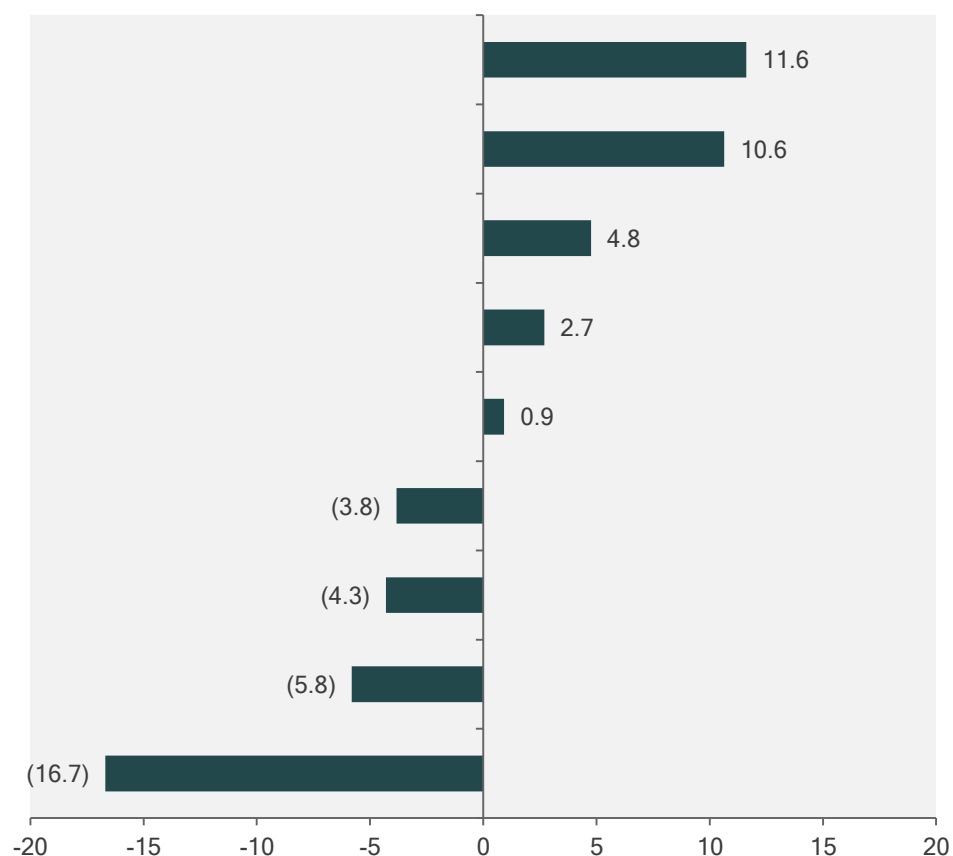
### As of June 30, 2020



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Sectors	KAR Small Cap Quality Value (%)	Russell 2000® Value Index (%)
Materials & Processing	19.1	7.5
Producer Durables	25.2	14.6
Consumer Staples	8.0	3.2
Consumer Discretionary	16.0	13.3
Technology	6.9	6.0
Health Care	2.2	6.0
Energy	—	4.3
Utilities	—	5.8
Financial Services	22.7	39.4

### Underweight/Overweight (%)



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*A complete list 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 from FactSet Research Systems and is assumed to be reliable. Numbers may not always add up due to rounding.*

# Conviction-Driven Investing Provides Opportunities for Excess Return

## Small Cap Quality Value Portfolio

As of June 30, 2020



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Top 10 Holdings	Russell Sector	% of Portfolio
Scotts Miracle-Gro	Materials & Processing	8.0
CoreLogic	Producer Durables	5.5
SiteOne Landscape Supply	Consumer Discretionary	5.4
Brooks Automation	Technology	5.2
Thor Industries	Consumer Discretionary	4.8
MGM Growth Properties	Financial Services	4.8
National Beverage	Consumer Staples	4.6
Watsco	Materials & Processing	4.3
Houlihan Lokey	Financial Services	4.3
RBC Bearings	Materials & Processing	4.1
<b>Total</b>		<b>50.9</b>

Research confidence leads to large active weights

	KAR Small Cap Quality Value	Russell 2000® Value Index
# of Holdings	30	1,439
Average Position Size (%)	3.3	0.1
Weight of Top Ten Holdings (%)	50.9	4.4
Active Share (%)	99.3	—

The strategy benefits from diversification while still taking significant active positions

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# Strong Risk-Adjusted Returns

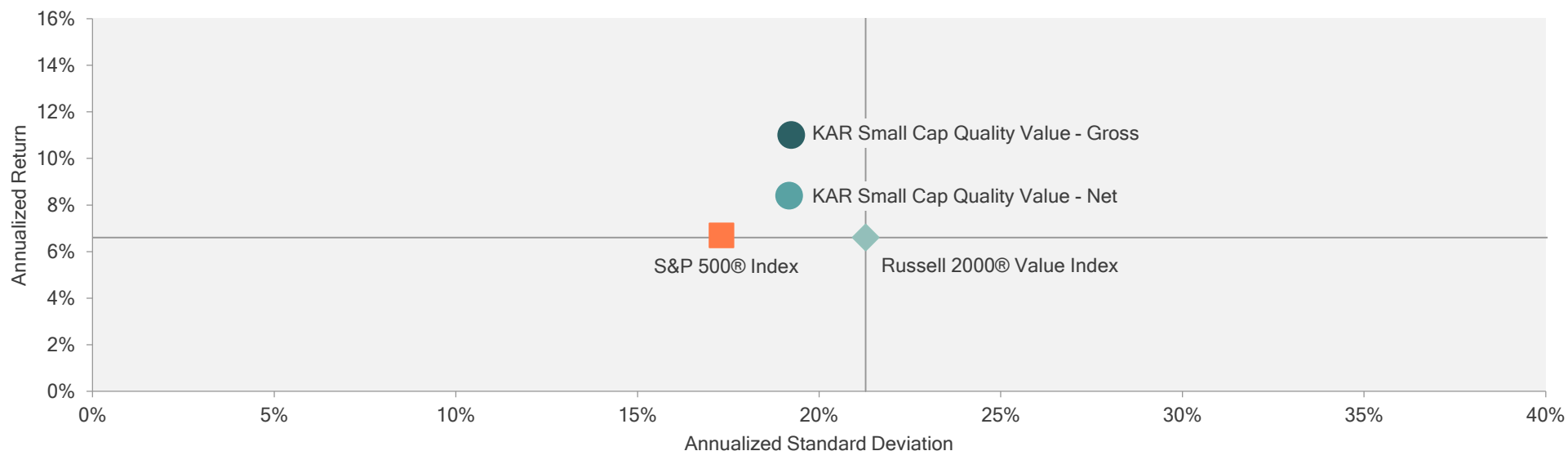
Small Cap Quality Value Portfolio  
Inception\* to June 30, 2020



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## Meaningful Excess Return with Lower Volatility

Annualized Since Inception\*



## Strong Risk-Adjusted Performance Metrics

Annualized Since Inception\*

	Alpha	Sharpe Ratio	Standard Deviation	Semi-Standard Deviation	Beta	Tracking Error
KAR Small Cap Quality Value	4.92	0.48	19.23	13.97	0.82	9.12
Russell 2000 Value Index	0.00	0.22	21.28	16.58	1.00	0.00

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

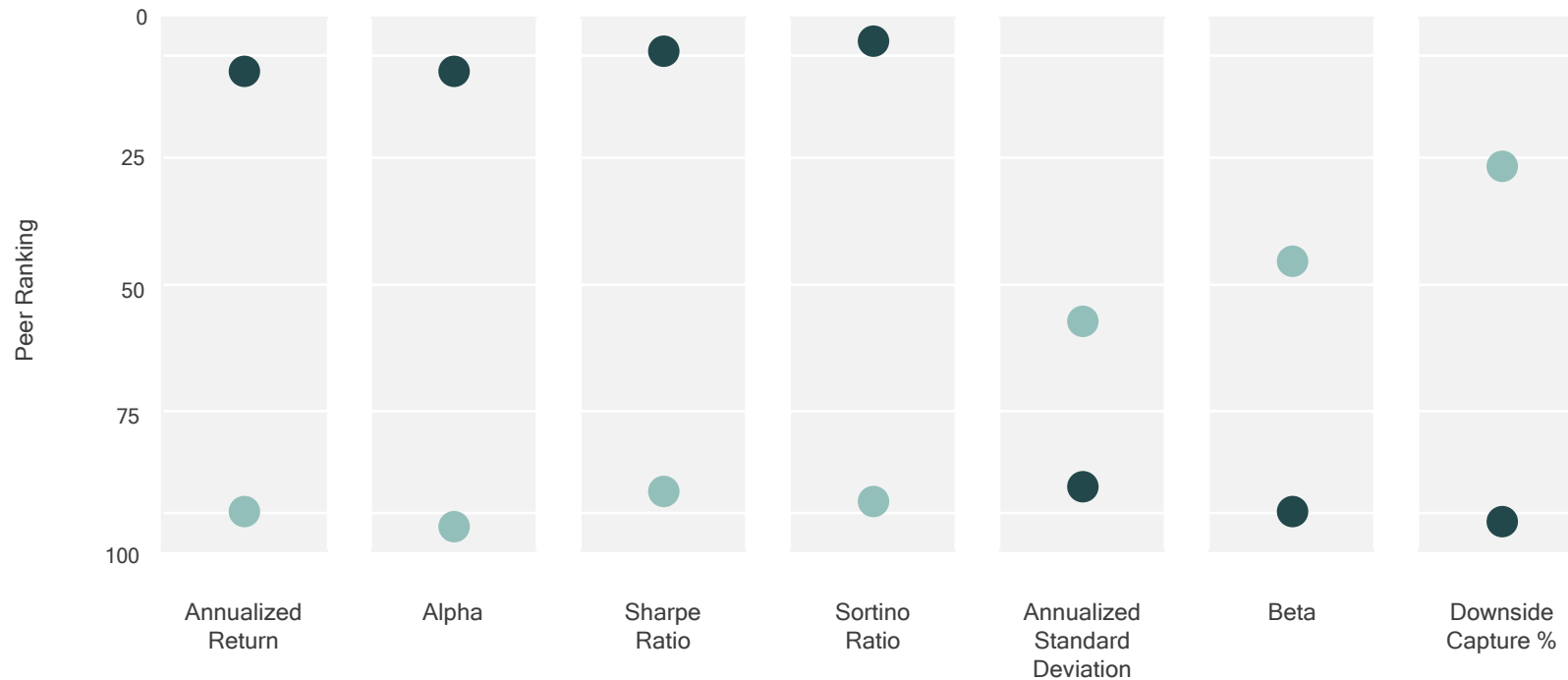
# Peer Comparison

## Small Cap Quality Value Portfolio

### Inception\* to June 30, 2020



Kayne Anderson Rudnick  
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● KAR Small Cap Quality Value    ● Russell 2000® Value Index    ■ Small Cap Value Universe

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

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The Small Cap Value Universe includes all managers categorized in the small cap value asset class by eVestment.

Returns for the Kayne Anderson Rudnick composite are preliminary and are gross of fees unless otherwise specified. For further details on the composite, please see the disclosure statement in this presentation. Data is obtained from FactSet Research Systems and is assumed to be reliable. **Past performance is no guarantee of future results.** Management fees are described in Form ADV Part 2, 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 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.

# Returns

## Small Cap Quality Value Portfolio



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### Annualized Performance

Periods Ending 6/30/20	Gross (%)	Net (%)	Index (%)	Excess Return (bps)
Second Quarter	28.57	27.69	18.91	967
Year to Date	0.14	(1.36)	(23.50)	2363
1 Year	9.46	6.24	(17.48)	2694
3 Years	6.61	3.47	(4.35)	1096
5 Years	9.94	6.87	1.26	868
7 Years	11.19	8.46	3.98	720
10 Years	12.93	10.42	7.82	511
Since Inception*	10.97	8.40	6.35	462

### Calendar Year Performance

Periods Ending 12/31	Gross (%)	Net (%)	Index (%)	Excess Return (bps)
2019	25.09	21.45	22.39	270
2018	(14.14)	(16.72)	(12.86)	(128)
2017	20.66	17.14	7.84	1282
2016	26.17	22.50	31.74	(557)
2015	(0.27)	(1.80)	(7.47)	720
2014	2.51	0.85	4.22	(170)
2013	40.00	37.83	34.52	548
2012	10.01	8.32	18.05	(805)
2011	6.73	4.58	(5.50)	1223
2010	24.75	22.81	24.50	25
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	535
2003	22.12	18.59	46.03	(2391)
2002	0.48	(2.52)	(11.43)	1191
2001	19.42	16.06	14.02	540
2000	24.92	21.28	22.83	210
1999	(7.69)	(10.39)	(1.49)	(620)
1998†	9.61	7.99	(10.93)	2054

\*June 1, 1998

†Performance calculations are for the seven months ended December 31, 1998.

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Returns for the Kayne Anderson Rudnick composite are preliminary. All periods less than one year are total returns and are not annualized. For further details on the composite, please see the disclosure statement in this presentation. Data is obtained from 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.**

**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.

# Biographies

## Small Cap Quality Value Team



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### **Douglas S. Foreman, CFA**

*Chief Investment Officer and Member of the Executive Management Committee*

Mr. Foreman has approximately 34 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. from Harvard University. Mr. Foreman is a Chartered Financial Analyst charterholder.



### **Julie Kutasov**

*Portfolio Manager and Senior Research Analyst with primary research responsibilities for the small and mid-capitalization materials and processing sector*

Before joining Kayne Anderson Rudnick in 2001, Ms. Kutasov 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 19 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**

*Portfolio Manager and Senior Research Analyst with primary research responsibilities for the small and mid-capitalization producer durables sector*

Mr. Stone has approximately 31 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 Cap Quality Value Team



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### **Todd Beiley, CFA**

*Senior Research Analyst with primary research responsibilities for the small and mid-capitalization energy and consumer discretionary sectors*

Before joining Kayne Anderson Rudnick in 2002, Mr. Beiley 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 21 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.



### **Julie Biel, CFA**

*Senior Research Analyst with primary research responsibilities for the small and mid-capitalization technology sector*

Before joining Kayne Anderson Rudnick in 2013, Ms. Biel worked at Imperial Capital as an Equity Research Associate. Prior to business school, Ms. Biel was an Equity Research Associate at Merrill Lynch. She has approximately 12 years of equity research experience. Ms. Biel earned a B.A., in Economics and Psychology from New York University and an M.B.A. from the University of California, Los Angeles. Ms. Biel is a Chartered Financial Analyst charterholder.



### **Jon Christensen, CFA**

*Senior Research Analyst with primary research responsibilities for the small and mid-capitalization health care sector*

Before joining Kayne Anderson Rudnick in 2001, Mr. Christensen was a Portfolio Manager and Senior Research Analyst for Doheny Asset Management and has approximately 25 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.



### **Chris Wright, CFA**

*Senior Research Analyst with primary research responsibilities for the small and mid-capitalization financials sector*

Before joining Kayne Anderson Rudnick in 2012, Mr. Wright worked at Alvarez & Marsal as a Senior Associate in Turnarounds and Restructuring and at Houlihan Lokey Howard & Zukin as an Associate in the Investment Banking Financial Institutions Group. He has approximately eight years of equity research experience. Mr. Wright earned a B.S.E., concentration in Finance, from the Wharton School at the University of Pennsylvania and an M.B.A. from the University of California, Los Angeles where he was selected for the Student Investment Fund. Mr. Wright is a Chartered Financial Analyst charterholder.

# Biographies

## Small Cap Quality Value Team



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### **Sean Dixon**

*Research Analyst with primary research responsibilities for the small and mid-capitalization consumer discretionary and producer durables sectors*

Before joining Kayne Anderson Rudnick in 2018, Mr. Dixon worked as an analyst at Denver Investments, covering international small-cap stocks. Mr. Dixon has approximately 11 years of equity research experience. Mr. Dixon earned his bachelor's degree in finance from the University of Denver.



### **Adam Xiao, CFA**

*Research Analyst with primary research responsibilities for the small and mid-capitalization consumer staples, financials and producer durables sectors*

Before joining Kayne Anderson Rudnick in 2018, Mr. Xiao was with Diamond Hill Capital Management, where he was a senior associate covering telecommunications and networking equipment companies. He has approximately five years of equity research experience. Mr. Xiao earned his B.A. in operations research and management science from UC Berkeley and his MBA from Columbia Business School. Mr. Xiao is a Chartered Financial Analyst charterholder.



### **Jordan Greenhouse**

*Managing Director - Senior Portfolio Specialist and Relationship Manager*

Before joining Kayne Anderson Rudnick in 2016, Mr. Greenhouse worked at Fidelity Investments for approximately 17 years in a variety of roles, most recently as a Regional Vice President in their Private Client Group. He also served as the Chief Operating Officer at Rady Asset Management. He has approximately 23 years of investment experience. Mr. Greenhouse earned a B.S. in Psychology from the University of Utah and an M.B.A. from the Johnson Graduate School of Management at Cornell University.



### **James B. May, CFA**

*Managing Director - Portfolio Specialist*

Prior to joining Kayne Anderson Rudnick in 2019, Mr. May worked as a product specialist covering domestic and international equity strategies at Virtus Investment Partners and as a senior portfolio manager and ETF specialist in the Global Structured Products Group at SSgA. He has approximately 32 years of investment experience. Mr. May earned a B.A. in Finance from Bentley University and an M.B.A. from Boston College. Mr. May is a Chartered Financial Analyst charterholder.





**Stephen A. Rigali, CFA**

*Executive Managing Director and Member of the Executive Management Committee*

Mr. Rigali has approximately 39 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.



**Douglas S. Foreman, CFA**

*Chief Investment Officer and Member of the Executive Management Committee*

Mr. Foreman has approximately 34 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. from Harvard University. Mr. Foreman is a Chartered Financial Analyst charterholder.



**Jeannine G. Vanian**

*Chief Operating Officer and Member of the Executive Management Committee*

Ms. Vanian has approximately 33 years of experience in the investment management industry, including 31 years with Kayne Anderson Rudnick. Ms. Vanian attended The American University in Cairo, Egypt.

# Representative Clients



Kayne Anderson Rudnick  
Investment Management

## Corporate

Coffman Engineers  
Lewitt, Hackman, et al.  
Majestic Life Insurance Company  
Majestic Mortuary Services  
Morley Group  
National Federation of Independent Business  
Tennant Company

## Endowments & Foundations

Community West Foundation  
Dumont Foundation  
Hartford HealthCare  
LeRoy Haynes Center  
San Francisco Opera Association  
Santa Barbara Zoological Foundation

## Public Funds

Amarillo Firemen's Relief and Retirement Fund  
California Department of Human Resources  
Champaign Police  
City of Amarillo  
City of Aurora Police  
City of Deerfield Beach  
City of North Miami  
Elgin Firefighters Pension Fund  
Elgin Police Pension Fund  
Intergovernmental Risk Management Agency  
Rockford Police Pension Fund  
The Maywood Police Pension Fund

## Religious Organizations

Baptist Health  
Brethren Benefit Trust  
First Presbyterian Society  
Texas Presbyterian Foundation

## Taft-Hartley

Chicago Transit Authority  
Western States Insulators and Allied Workers

*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.*

# Disclosure

## Small Cap Quality Value Portfolio



Kayne Anderson Rudnick  
Investment Management

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, 2018.

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 Quality Value Wrap Composite has been examined for the period from January 1, 1999 through December 31, 2018. The verification and performance examination reports are available upon request.

Kayne Anderson Rudnick Investment Management, LLC, a wholly owned subsidiary of Virtus Investment Partners, Inc., 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 Quality Value Wrap Portfolios. Small Cap Quality Value Wrap Portfolios are invested in equity securities with 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. 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. 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 exceeded 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 after 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. Beginning January 1, 2016, net annual returns are calculated by deducting 1/12th of an assumed maximum annual wrap fee of 3% on a monthly basis. 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 measures the variability of the composite (using gross returns) and the benchmark for the 36-month period 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 (%)			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 (%)	Internal Dispersion
December 31	Composite	Benchmark								
2012	16.04	20.17	4,010	531	100%	34	27.82	25.92	20.58	0.55
2013	14.24	16.05	4,729	651	100%	38	24.75	22.81	24.50	0.75
2014	12.88	12.98	5,232	478	100%	36	6.73	4.58	(5.50)	0.33
2015	13.64	13.65	6,545	622	100%	31	10.01	8.32	18.05	0.43
2016	14.09	15.72	7,841	637	100%	27	40.00	37.83	34.52	0.42
2017	12.17	14.17	7,989	648	100%	26	2.51	0.85	4.22	0.43
2018	14.39	15.98	8,095	624	100%	24	(0.27)	(1.80)	(7.47)	0.32
			9,989	641	100%	26	26.17	22.50	31.74	0.55
			14,609	803	100%	28	20.66	17.14	7.84	0.22
			17,840	644	100%	30	(14.14)	(16.72)	(12.86)	0.19

\*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.