



Kayne Anderson Rudnick  
Investment Management

Small Cap Sustainable Growth Portfolio  
Third Quarter 2018

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

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# Firm Overview

As of September 30, 2018



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

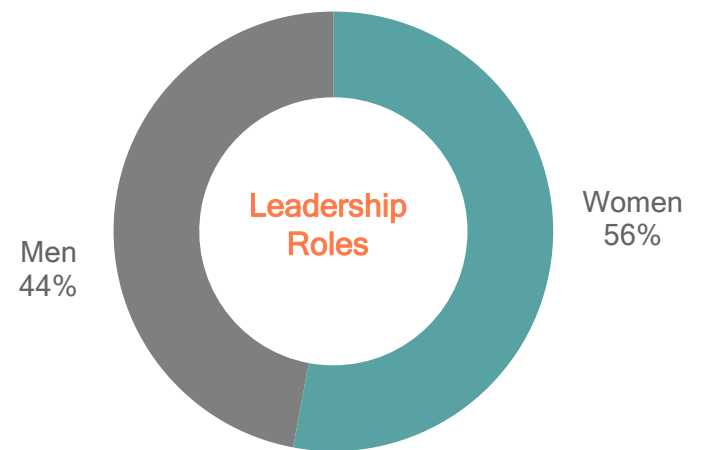
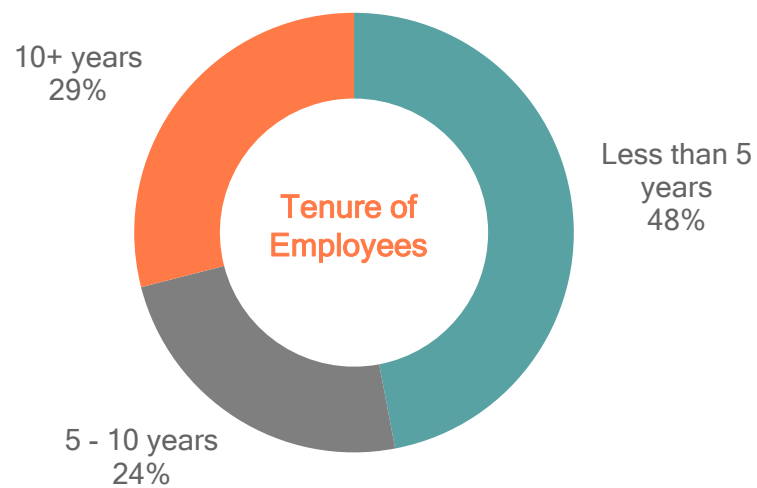
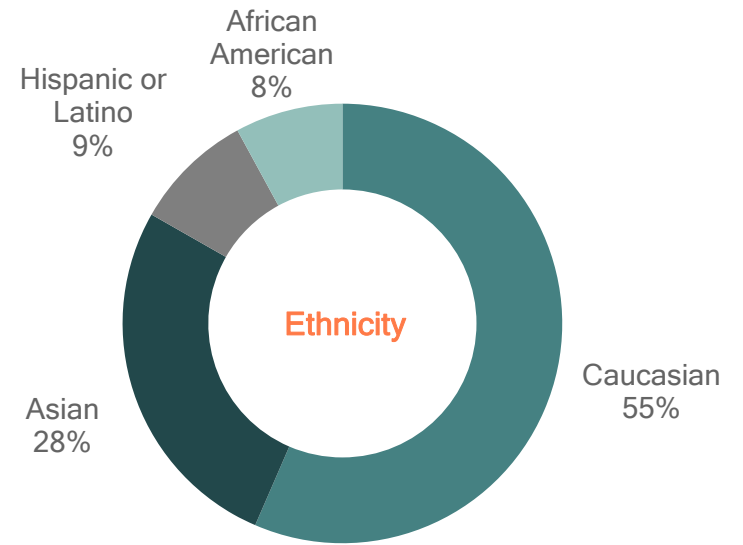
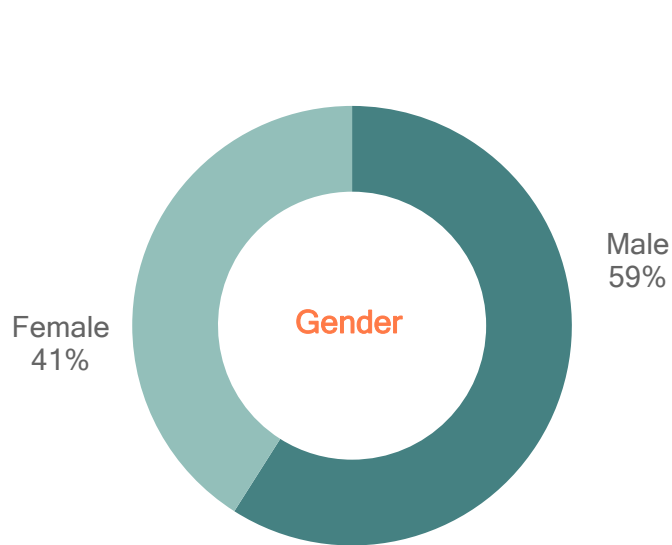
## At a Glance

Year Founded	1984
Headquarters	Los Angeles, CA
AUM	\$26.8 billion
Number of Investment Professionals	17
Average Investment Experience	15 Years

# Employee Stats



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Numbers may not always add up due to rounding.

# Small Sustainable Growth Team



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Portfolio Manager/Analysts	Responsibility	Research Experience	Years with KAR
Douglas S. Foreman, CFA	Chief Investment Officer	32 Years	7 Years
Todd Bailey, CFA	Portfolio Manager & Senior Research Analyst Sector Coverage: Energy and Consumer Discretionary	19 Years	16 Years
Julie Biel, CFA	Senior Research Analyst Sector Coverage: Technology	10 Years	5 Years
Jon Christensen, CFA	Portfolio Manager & Senior Research Analyst Sector Coverage: Health Care	23 Years	17 Years
Julie Kutasov	Senior Research Analyst Sector Coverage: Materials and Processing	17 Years	17 Years
Craig Stone	Senior Research Analyst Sector Coverage: Producer Durables	29 Years	18 Years
Chris Wright, CFA	Senior Research Analyst Sector Coverage: Financials	8 Years	6 Years
Sean Dixon	Research Analyst Sector Coverage: Consumer Discretionary and Producer Durables	9 Years	<1 Year
Adam Xiao , CFA	Research Analyst Sector Coverage: Consumer Staples, Financials and Producer Durables	3 Years	<1 Year

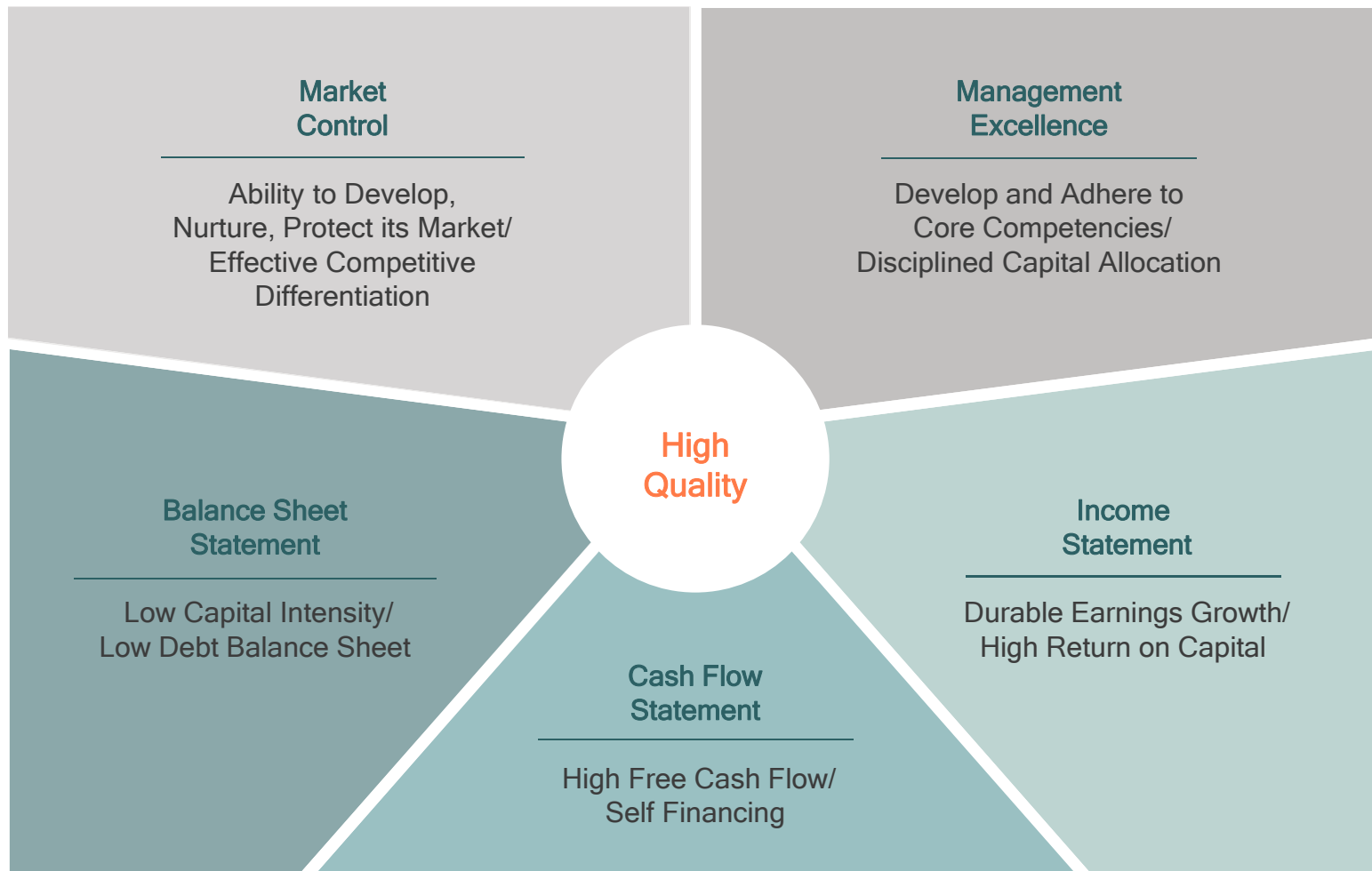
Institutional Client Services	Responsibility	Industry Experience	Years with KAR
Daniela Bailly	Managing Director – Consultant Relations	23 Years	16 Years
Stephanie Gillman	Managing Director – Institutional Client Services	25 Years	19 Years
Maritza Gonzalez	Assistant Director - Institutional Client Services	17 Years	14 Years
Aaron Reed	Managing Director	28 Years	11 Years

### Investment Philosophy

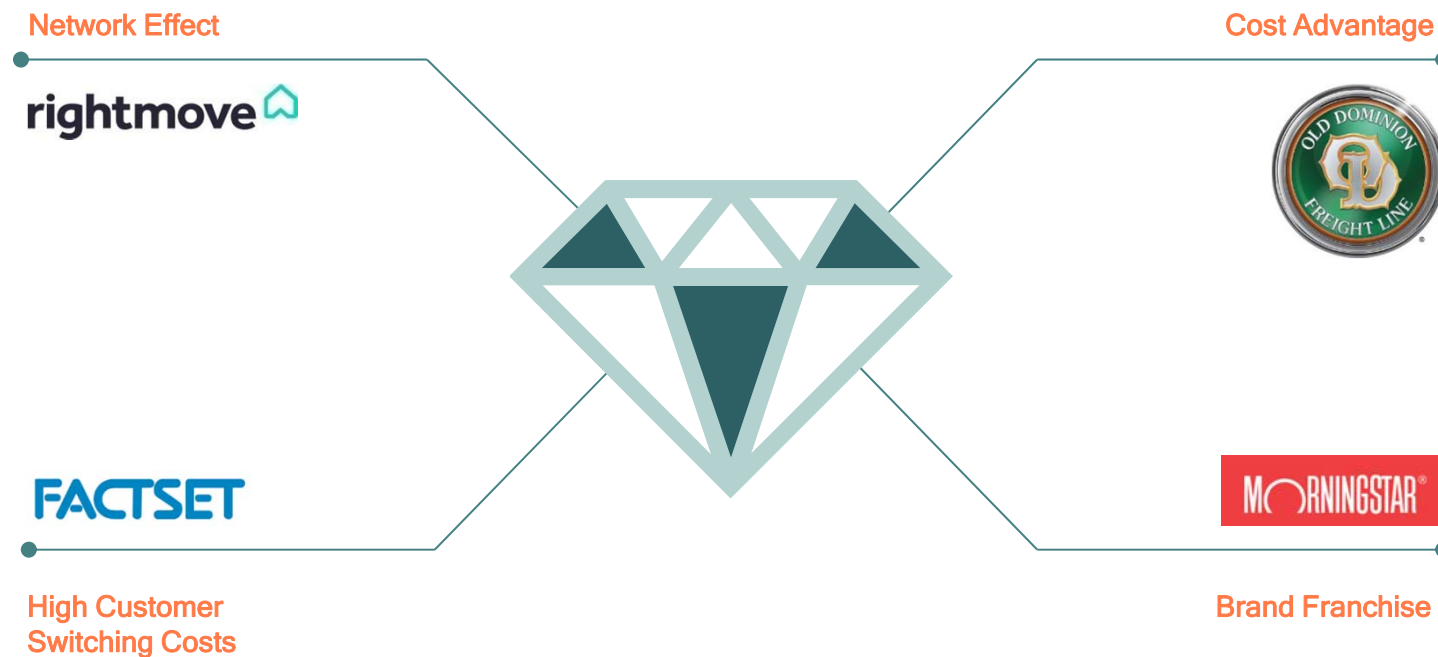
We believe that purchasing high-quality businesses with competitive protections at attractive valuations will achieve excess returns over a complete market cycle

### Investment Objectives

- To achieve a return meaningfully above that of the Russell 2000® Growth 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 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 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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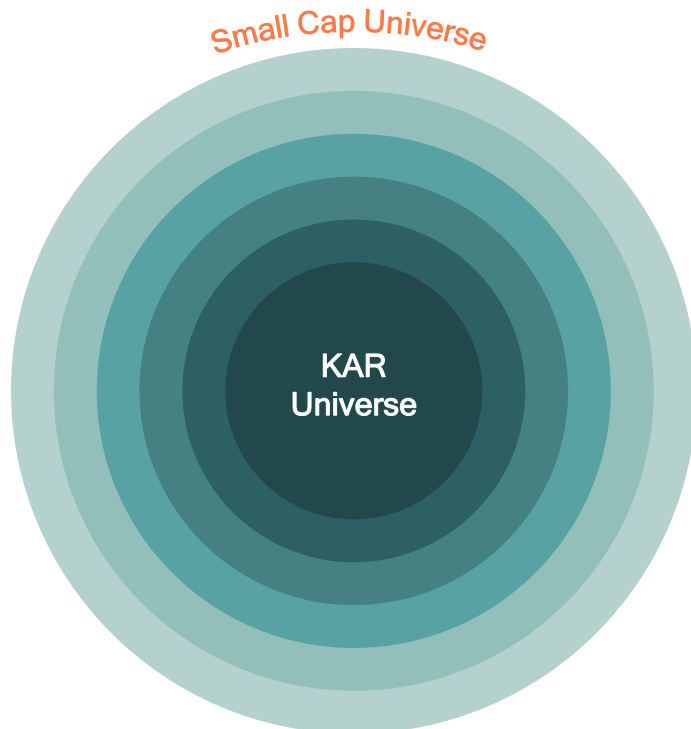


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## We source our investment universe in a number of ways



### 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>• Typically 3%-4%</li> <li>• Maximum weight 10% (at market)</li> </ul>
<b>Sector Tolerances</b>	<ul style="list-style-type: none"> <li>• Typically +/- 10%* of the Russell 2000® Growth Index, utilizing Russell sector classifications</li> </ul>
<b>Non-U.S. Holdings</b>	<ul style="list-style-type: none"> <li>• Not to exceed 20% (at market)</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</li> </ul>

*\*A consequence of our high-quality investment philosophy is that certain sectors do not meet our financial criteria and offer fewer investable ideas. Our portfolios therefore will likely have persistently low exposure to those segments of the economy (and therefore may cause our sector weights to be outside of the 10% threshold relative to the benchmark). Companies operating in these areas produce consistently low or no profitability, are capital intensive, are heavily indebted, or have overly complex balance sheet structures. These may include large sectors such as Health Care (biotechnology) and also smaller sectors such as Materials & Processing (chemicals, metals and mining), Energy (oil and gas), Financials (real estate and banking), and Utilities where we will have little to no exposure.*

### 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>Diversification Requirements</b>	<ul style="list-style-type: none"> <li>• Rebalance within sector parameters</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>• Economic sector weights managed to typically within a maximum 10% variance to benchmark</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>• Limit on trading activities as a percentage of daily trading volume, typically no more than 20%</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

Small Cap Sustainable Growth Portfolio – As of September 30, 2018



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	KAR Small Cap Sustainable Growth	Russell 2000® Growth Index
<b>Quality</b>		
Return on Equity–Past 5 Years	<b>23.9%</b>	12.4%
Total Debt/EBITDA	<b>0.8 x</b>	4.9 x
Earnings Variability–Past 10 Years	<b>26.7%</b>	79.0%
<b>Growth</b>		
Earnings Per Share Growth–Past 10 Years	<b>10.9%</b>	8.5%
Capital Generation–{ROE x (1-Payout)}	<b>18.6%</b>	10.4%
<b>Value</b>		
P/E Ratio–Trailing 12 Months	<b>37.7 x</b>	74.1 x
Free Cash Flow Yield†	<b>2.4%</b>	1.0%
<b>Market Characteristics</b>		
\$ Weighted Average Market Cap–3-Year Average	<b>\$3.7 B</b>	\$2.3 B
Largest Market Cap–3-Year Average	<b>\$10.8 B</b>	\$8.6 B
Annualized Standard Deviation–Since Inception*	<b>17.8%</b>	22.6%

\*January 1, 1998

†Free cash flow data is as of June 30, 2018. Prices are as of September 30, 2018. 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

## We Manage Risk and Generate Returns Differently



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	CLASSIC APPROACH	KAR APPROACH
RISK	<p>stock portfolio <b>75</b></p> <p>1% to 2% positions</p> <p>6 years of negative returns since 1998</p> <p>No stock can help or hurt more than 2%</p>	<p>stock portfolio <b>20-35</b></p> <p>3% to 10% positions in high-quality companies</p> <ul style="list-style-type: none"> <li>Minimal business risk</li> <li>Minimal balance sheet risk</li> <li>Minimal profit risk</li> <li>3 years of negative returns since 1998</li> </ul>
RETURNS	<p>Average companies producing average returns on capital</p> <p>Buying cheap and selling dear required for above-average portfolio returns</p> <p>6 months average holding period</p> <p>High frictional costs due to RAPID trading</p> <p>Poor tax efficiency due to short holding periods</p>	<p>Exceptional companies producing exceptional returns on capital</p> <p>Buy at attractive price and let exceptional returns on capital drive exceptional growth and income over extended period of time</p> <p>36 to 60 months average holding period, but often longer</p> <p>Low frictional costs due to LESS trading</p> <p>Inherent tax efficiency</p>

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



# Sector Weights

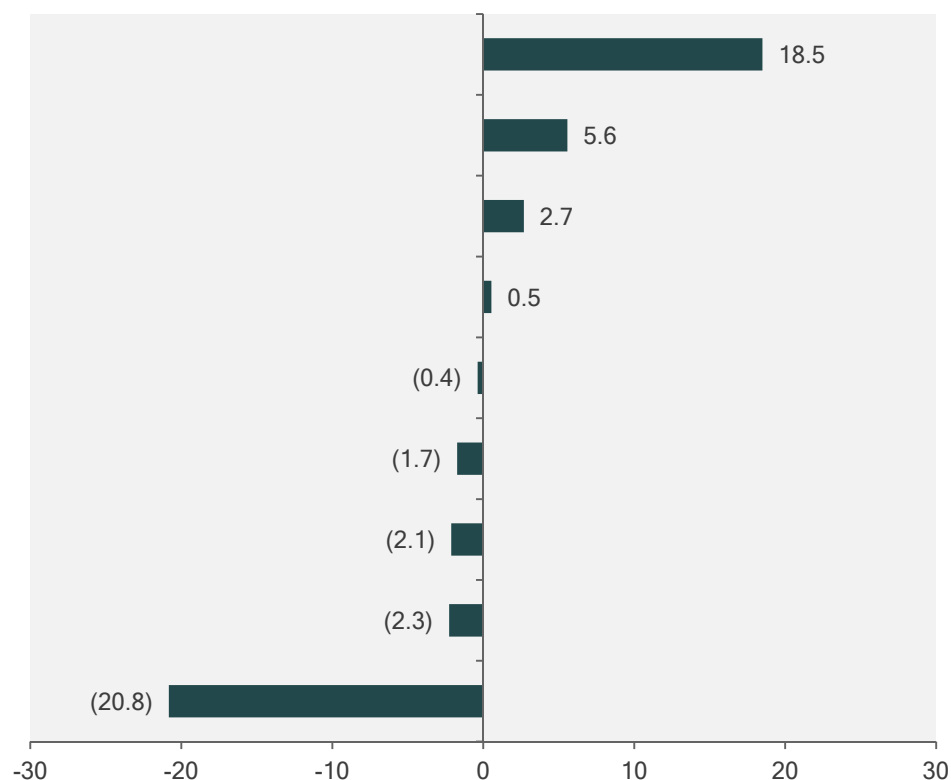
Small Cap Sustainable Growth Portfolio  
As of September 30, 2018



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Sectors*	KAR Small Cap Sustainable Growth (%)	Russell 2000® Growth Index (%)
Technology	34.4	15.9
Financial Services	15.7	10.1
Consumer Staples	5.1	2.5
Producer Durables	15.8	15.2
Materials & Processing	7.3	7.6
Utilities	—	1.7
Consumer Discretionary	15.8	17.9
Energy	—	2.3
Health Care	6.0	26.8

## Underweight/Overweight (%)



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

*\*The large underweight in the KAR portfolio relative to the Russell 2000 Growth Index in the health-care sector is due to the benchmark's large weighting in biotechnology companies and pharmaceutical companies. Within the benchmark's health-care sector, biotechnology represents 12.7% and pharmaceutical represents another 3.0% as of September 30, 2018. These two sub-sectors represent 15.7% of the health-care sector within the benchmark and is outside our investable universe given the difficulty in discerning a competitive advantage, persistent lack of profitability and not meeting our overall investment criteria. Compared to the remaining 11.1% weight in the benchmark, our portfolio has a 6.0% weight in health care. The overweight the technology sector is due to the classification of the diverse business models held within our portfolio by the Russell sector classification system that is used. Many of these businesses within the technology sector will be categorized to other non-technology sectors by other index classification systems beginning in the third quarter 2018 (i.e., GICS is adding a Communication Services sector beginning in 3Q that will reduce this overweight as many of the companies currently held will move to this new sector).*

*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 Sustainable Growth Portfolio

As of September 30, 2018



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Top 10 Holdings	Russell Sector	% of Portfolio
Fox Factory Holding	Consumer Discretionary	8.7
Autohome	Technology	7.0
Auto Trader Group	Technology	6.0
HEICO	Producer Durables	5.2
The Chefs' Warehouse	Consumer Staples	5.2
Old Dominion Freight Line	Producer Durables	5.1
Aspen Technology	Technology	5.0
Ollie's Bargain Outlet Holdings	Consumer Discretionary	4.1
Copart	Producer Durables	4.1
NVE	Technology	4.0
<b>Total</b>		<b>54.5</b>

Research confidence leads to large active weights

	KAR Small Cap Sustainable Growth	Russell 2000® Growth Index
# of Holdings	27	1,253
Average Position Size (%)	3.7	0.1
Weight of Top Ten Holdings (%)	54.5	4.9
Active Share (%)	98.3	—

The strategy benefits from diversification while still taking significant active positions

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# Strong Risk-Adjusted Returns

## Small Cap Sustainable Growth Portfolio

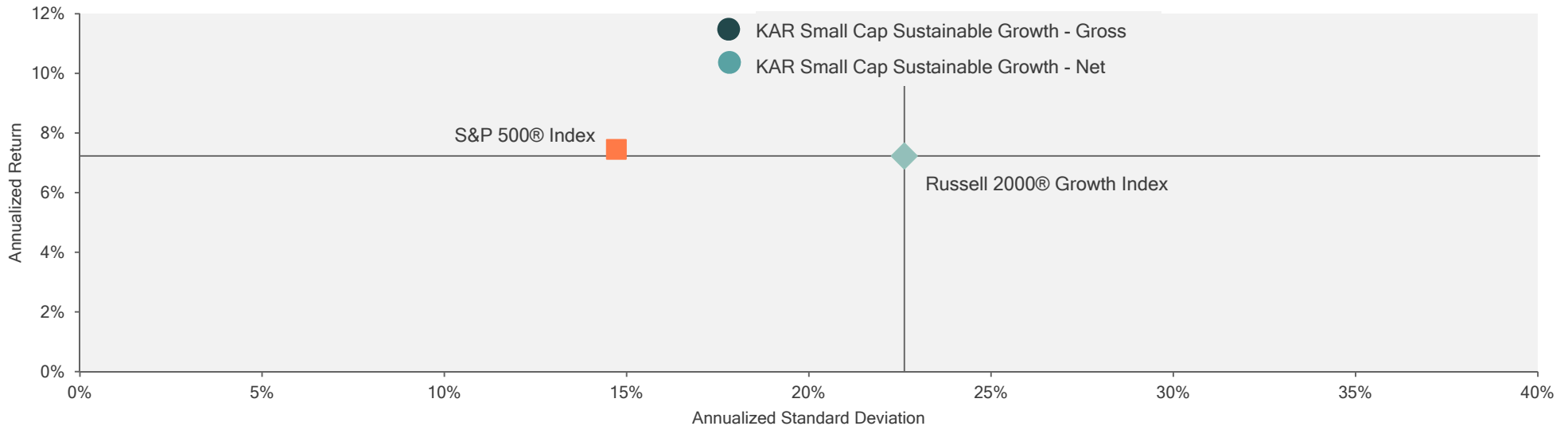
Inception\* to September 30, 2018



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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 Sustainable Growth	5.62	0.54	17.80	13.67	0.67	12.08
Russell 2000® Growth Index	0.00	0.23	22.62	16.93	1.00	0.00

\*January 1, 1998

*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.*

# 5-Year Rolling Returns

## Small Cap Sustainable Growth Portfolio

Inception\* to September 30, 2018



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### Performance Statistics

#### 5-Year Rolling Returns



\*January 1, 1998

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# Peer Comparison

## Small Cap Sustainable Growth Portfolio

### Ten Years Ending September 30, 2018



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● KAR Small Cap Sustainable Growth    ● Russell 2000® Growth Index    ■ Small Cap Growth Universe

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

*The Small Cap Growth Universe includes all managers categorized in the small cap growth 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 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 1%. The effect on performance would grow at a compounded rate. Over a five-year period, if a \$250,000 portfolio had an annual return of 10%, it would grow to \$402,628. The net compounded effect of a 1% annual investment management fee would total \$17,972 and result in a portfolio value of \$384,656.*

# Returns

## Small Cap Sustainable Growth Portfolio



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### Annualized Performance

Periods Ending 9/30/18	Gross (%)	Net (%)	Index (%)	Excess Return (bps)
Third Quarter	2.64	2.38	5.52	(289)
Year to Date	25.04	24.13	15.76	928
1 Year	34.57	33.26	21.06	1350
3 Years	34.58	33.28	17.98	1660
5 Years	21.04	19.85	12.14	890
7 Years	22.78	21.57	17.52	526
10 Years	17.88	16.72	12.65	523
Since Inception*	11.48	10.37	7.23	425

### Calendar Year Performance

Periods Ending 12/31	Gross (%)	Net (%)	Index (%)	Excess Return (bps)
2017	39.03	37.69	22.17	1687
2016	26.11	24.88	11.32	1479
2015	2.57	1.55	(1.38)	395
2014	6.47	5.40	5.60	87
2013	39.89	38.53	43.30	(342)
2012	13.29	12.16	14.59	(130)
2011	17.82	16.69	(2.91)	2073
2010	14.82	13.69	29.09	(1427)
2009	38.51	37.16	34.47	404
2008	(33.61)	(34.32)	(38.54)	493
2007	(0.59)	(1.59)	7.05	(764)
2006	15.80	14.66	13.35	246
2005	1.88	0.85	4.15	(227)
2004	12.82	11.68	14.31	(149)
2003	38.44	37.10	48.54	(1011)
2002	(23.82)	(24.60)	(30.26)	644
2001	0.48	(0.49)	(9.23)	971
2000	6.28	5.22	(22.43)	2871
1999	31.19	29.92	43.09	(1190)
1998	3.33	2.28	1.23	210

\*January 1, 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.

# Biographies

## Small Cap Sustainable Growth Team



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**Douglas S. Foreman, CFA**

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

Mr. Foreman has approximately 32 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.



**Todd Beiley, CFA**

*Portfolio Manager and 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 19 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**

*Portfolio Manager and 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 23 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.

# Biographies

## Small Cap Sustainable Growth Team



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### **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 10 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.



### **Julie Kutasov**

*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 17 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**

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

Mr. Stone has approximately 29 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.



### **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, Trust Company of the West as a summer Analyst in Equity Research, and at Houlihan Lokey Howard & Zuckin 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 Sustainable Growth 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 nine 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 three 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.

# Biographies

## Institutional Client Services Team



Kayne Anderson Rudnick  
Investment Management



### **Daniela Bailly**

*Managing Director - Consultant Relations*

310-284-5540 | [DBailly@kayne.com](mailto:DBailly@kayne.com)

Ms. Bailly has approximately 23 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**

*Managing Director - Institutional Client Services*

310-282-7947 | [SGillman@kayne.com](mailto:SGillman@kayne.com)

Ms. Gillman has approximately 25 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.



### **Maritza Gonzalez**

*Assistant Director - Institutional Client Services*

310-284-6423 | [MGonzalez@kayne.com](mailto:MGonzalez@kayne.com)

Ms. Gonzalez has approximately 17 years of experience in the investment management industry. Before joining Kayne Anderson Rudnick in 2004, Ms. Gonzalez spent nine years of her career at the Capital Group Companies working in a variety of roles, including Presentation Development Coordinator. Ms. Gonzalez earned a B.A. in Sociology from the California State University Northridge and a J.D. from the Glendale University College of Law.



### **Aaron Reed**

*Managing Director*

310-228-8875 | [AREed@kayne.com](mailto:AREed@kayne.com)

Mr. Reed has approximately 28 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.



**Stephen A. Rigali, CFA**

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

Mr. Rigali has approximately 37 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 32 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 31 years of experience in the investment management industry, including 29 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  
Champaign Police  
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

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 Sustainable Growth 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, 2016.

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 Sustainable Growth Composite has been examined for the period from January 1, 1999 through December 31, 2016. 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 institutional and pooled Small Cap Sustainable Growth Portfolios. Small Cap Sustainable Growth Portfolios are invested in equity securities with market capitalizations in line with the Russell 2000® Growth 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® 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. Benchmark returns are not covered by the report of the independent verifiers. The composite was created in January 1998. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

Prior to January 1, 2011, the composite minimum was \$250,000. 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. As of January 1, 2011, the composite was redefined to include both institutional and mutual fund [or pooled] accounts. Previously, only institutional accounts were included.

The standard management fee schedule currently in effect is as follows: 1.00% for the first \$25 million; 0.80% on the next \$25 million; 0.70% on the balance. Actual management fees charged may vary depending on applicable fee schedules and portfolio size, among other things. Additional information may be found in Part 2A 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. Returns are presented net of transaction fees and include the reinvestment of all income. Gross returns will be reduced by investment management fees and other expenses that may be incurred in the management of the account. Model net returns have been calculated by deducting 1/12th of the highest tier of the standard management fee schedule in effect for the respective period from the gross composite returns on a monthly basis.

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 ended at the following dates:

3-Yr Annualized Standard Deviation (%)			Year	Total Firm Assets (\$ millions)	Total Composite Assets (\$ millions)	Accounts at Year End	Gross Annual Return (%)	Net Annual Return (%)	Russell 2000® Growth Index Annual Return (%)	Internal Dispersion
December 31	Composite	Benchmark								
	19.74	24.65	2008	3,445	12	14	(33.61)	(34.32)	(38.54)	1.04
	15.54	21.01	2009	4,010	11	11	38.51	37.16	34.47	0.94
	12.22	17.52	2010	4,729	12	12	14.82	13.69	29.09	0.22
	12.35	14.02	2011	5,232	180	14	17.82	16.69	(2.91)	0.51
	14.08	15.16	2012	6,545	155	17	13.29	12.16	14.59	0.42
	14.85	16.91	2013	7,841	232	23	39.89	38.53	43.30	1.42
	12.69	14.80	2014	7,989	205	20	6.47	5.40	5.60	0.40
			2015	8,095	244	17	2.57	1.55	(1.38)	0.40
			2016	9,989	614	19	26.11	24.88	11.32	0.54
			2017	14,609	2,038	40	39.03	37.69	22.17	1.30