

## Investment Perspectives

March 2026

# Thinking Beyond the Benchmark

*Seeking the high-quality sweet spot with the Kayne Anderson Rudnick Small Cap Growth strategy*

## Active or Passive?

In our opinion, so much of today’s investment advice boils down to this simple, perhaps overly simplistic, question: “Should I pay for active management with the hopes of generating excess investment returns or should I ‘buy the benchmark’ through a lower-cost index fund?” In the race for investment returns, index investing can make a compelling case when compared with many active strategies, whose excess returns, if any, may be offset by fees.

We believe, however, for U.S. small-cap stocks, and particularly in the growth category, the benchmark does not necessarily provide higher returns, as evidenced by the chart on the next page (Small Cap Growth Universe Comparison). This quartile chart shows that many, if not most, active managers in the U.S. small-cap growth asset class have outperformed the Russell 2000 Growth benchmark across all the time periods analyzed. Put another way, we take the view that the index, representative of passive investing, has consistently fallen in the bottom half of all observable active managers in this asset class on an annualized basis.

How these active managers achieve their excess returns and what corresponding risks are taken can vary widely. We believe investors should pay close attention to how returns by active managers have been achieved over multiple time periods, focusing on the consistency of excess returns over time.

## Quality of Holdings

In addition to consistency, we believe investors should review the quality of the underlying holdings in the portfolios of active managers.

In our view, investing in quality businesses is an important contributor to capturing greater risk-adjusted returns, relative not just to the Russell 2000 Growth Index, but to the overall equity market.

By focusing on companies with protected and differentiated business models, the KAR portfolio management team creates portfolios of businesses that exhibit strong fundamental characteristics, such as a high return on equity, low debt-to-capital ratio, strong free cash flow and consistent profitability. We believe these financial characteristics are strong indicators of a company’s durability and competitive position within its industry.

Quality may seem like a secondary factor during periods when the U.S. equity markets are



Our mission is identifying the highest quality businesses in which to invest. Benchmarks, in our view, are not built with the same discretion.

### Percent of Unprofitable Companies:

KAR Small Cap Growth:	4%
Russell 2000® Growth Index:	42%

*Data as of March 31, 2026.  
Source: FactSet Research Systems.  
Unprofitable companies are defined as those companies with zero or negative net profits.*

advancing in a consistent manner and in particularly pronounced bull markets. However, in our opinion, quality companies tend to stand out when equity markets correct. We believe it is during these more difficult market environments that quality counts.

**SMALL CAP GROWTH UNIVERSE COMPARISON: Annualized Returns**



Data as of March 31, 2026. Source: FactSet Research Systems. The Small Cap Growth Universe includes all managers categorized in the Small Cap Growth asset class by eVestment. To the extent actual performance results are shown in comparison to an index, the index is not actively managed and does not reflect the deduction of any investment management or other fees and expenses. Indices are not available for direct investment. This information is being provided by Kayne Anderson Rudnick Investment Management, LLC (“KAR”) for illustrative purposes only. **Past performance is no guarantee of future results.**

## Profiting from Companies with Strong Fundamentals

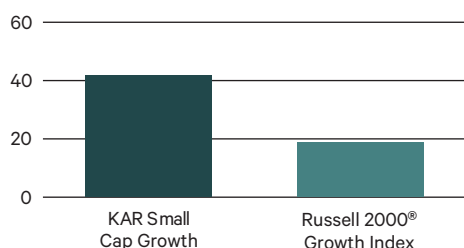
We believe an analysis of one of our actively managed investments—the KAR Small Cap Growth strategy—will provide a clear view into how the quality of underlying holdings affects the portfolio overall. The KAR Small Cap Growth strategy invests in the small-company universe benchmarked to the Russell 2000 Growth Index. Take a look at the following charts that compare the KAR portfolio against its benchmark.

In our view, our focus on quality gives our Small Cap Growth strategy stronger fundamental characteristics and, subsequently, better risk-and-reward characteristics than its benchmark.

## What’s In Our Investment Portfolio?

**HIGH-QUALITY STOCKS**

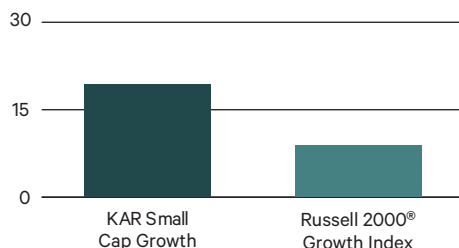
Percentage of Holdings



We seek the benefits of small company exposure, with higher-quality stocks.

**PROFITS**

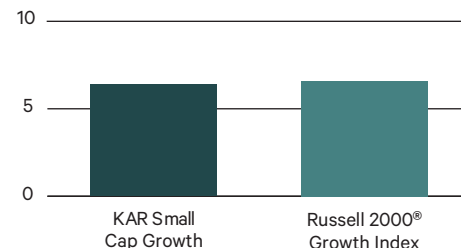
Five-Year Return on Equity



We believe profitable companies produce better returns and are more likely to sustain in volatile markets.

**DEBT COVERAGE**

Interest Coverage Expense Ratio

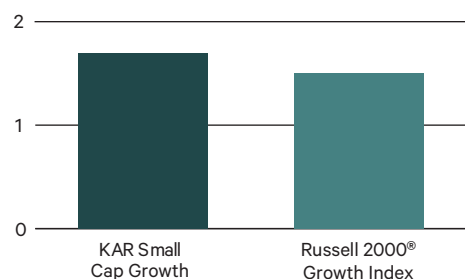


In our view, a higher interest coverage percentage means companies can more easily pay their debts.

Data as of March 31, 2026. Source: FactSet Research Systems and BNY Mellon. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. To the extent actual performance results are shown in comparison to an index, the index is not actively managed and does not reflect the deduction of any investment management or other fees and expenses. Indices are not available for direct investment. This information is being provided by Kayne Anderson Rudnick Investment Management, LLC (“KAR”) for illustrative purposes only. This material is deemed supplemental and complements the performance and disclosure presented on the last page. **Past performance is no guarantee of future results.**

**DEBT**

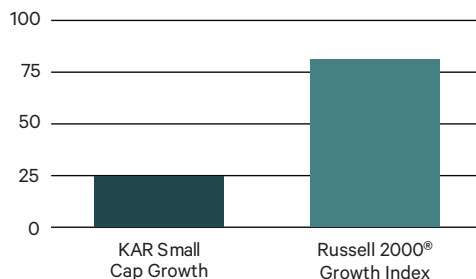
Debt/EBITDA\*



We find less debt translates to more free cash flow to fund future growth.

**VALUE**

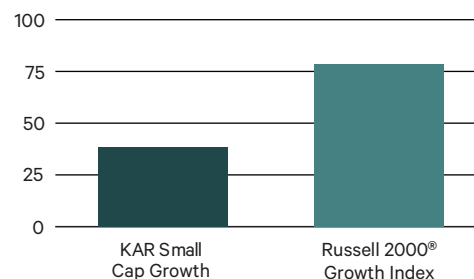
Trailing 12-Month Price-to-Earnings Ratio



In our experience, stocks with lower P/E ratios trade at a discount and have room to grow.

**VOLATILITY OF EARNINGS**

Earnings Variance for the Past 10 Years



We believe lower variance indicates companies have more predictable earnings over time.

\*KAR utilizes the interquartile method when calculating Debt/EBITDA. The interquartile method excludes outliers from an aggregate statistic such as weighted average. The interquartile method does not assume that data from the top or bottom of the distribution are outliers—only the extreme ends are excluded—and that it can be applied consistently as a quantitative method for most fundamental characteristics. Debt/EBITDA utilizes net debt for the calculation. Data as of March 31, 2026. Source: FactSet Research Systems and BNY Mellon. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. To the extent actual performance results are shown in comparison to an index, the index is not actively managed and does not reflect the deduction of any investment management or other fees and expenses. Indices are not available for direct investment. This information is being provided by Kayne Anderson Rudnick Investment Management, LLC (“KAR”) for illustrative purposes only. This material is deemed supplemental and complements the performance and disclosure presented on the last page. **Past performance is no guarantee of future results.**

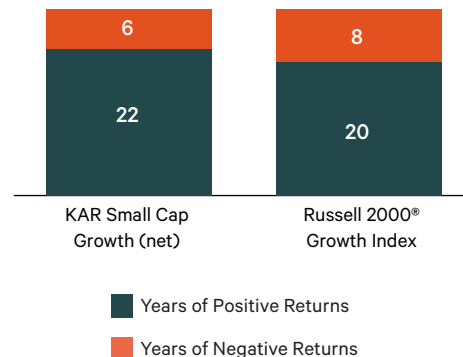
## Managing Risk to Keep Investors on Course

The flip side of returns is risk, and we believe careful risk management is a key contributor to how the KAR Small Cap Growth strategy has been able to consistently outperform its benchmark. The small-cap asset class is generally known for its potential to deliver excess returns over the large-cap space, but is often understood to be carrying more risk. Our portfolio management team maintains its sharp focus on quality in approaching and managing portfolio risk; as such, we find the risk profile of the KAR Small Cap Growth portfolio is closer to that of the S&P 500 Index, which comprises U.S. large-cap companies, than it is to the Russell 2000 Growth Index.

Investors often describe risk as the potential to lose money. The Small Cap Growth portfolio, since its inception in 1998, has had more years of positive returns and fewer years of negative returns when compared to the Russell 2000 Growth Index, as evidenced in the chart below.

	Annualized Return	Beta	Standard Deviation
KAR Small Cap Growth (gross)	9.29	0.70	18.67
KAR Small Cap Growth (net)	7.89	0.70	18.67
S&P 500® Index	8.93	0.56	15.30
Russell 2000® Growth Index	6.88	1.00	22.73

Lower beta indicates less volatility than the market as a whole. Lower standard deviations indicate more consistent returns over time.



Data presented is since the inception of the KAR Small Cap Growth strategy, January 1, 1998 through March 31, 2026. Source: FactSet Research Systems. Please see additional disclosures at the bottom of the next page. **Past performance is no guarantee of future results.**

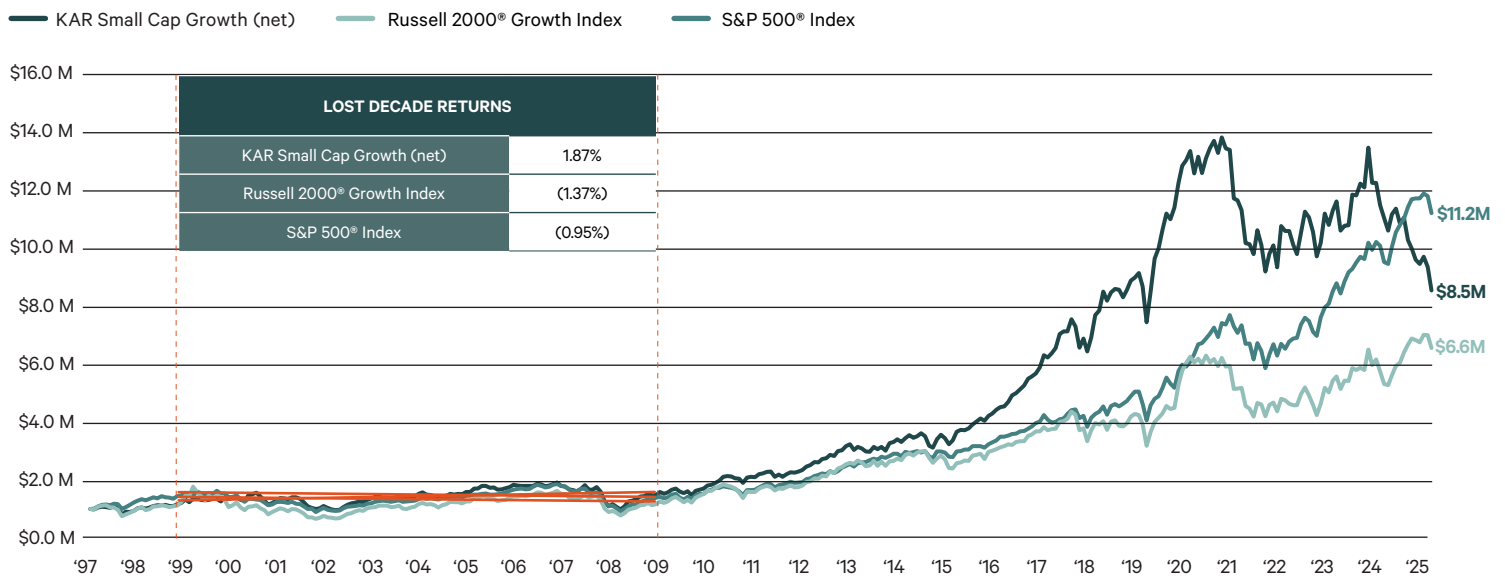


A concept in behavioral finance known as prospect theory tells us that investors feel the impact of negative returns more deeply than positive ones. At KAR, we strive to remain defensive even in the worst markets.

## Performance Through the Years

At the end of the day, investors want an investment strategy that delivers returns, through bull and bear markets, recessions and recoveries. Over the period shown, the KAR Small Cap Growth strategy has demonstrated competitive long-term growth, outperforming the Russell 2000 Growth Index and showing meaningful periods of outperformance relative to the S&P 500 across market cycles.

### GROWTH OF \$1 MILLION



“Lost Decade” reflects time period between January 1, 2000 to December 31, 2009. Returns are annualized. The “Lost Decade” refers to the period in which the S&P 500 Index posted its first negative “named” decade ever (i.e., 1960s, 1970s) since inception of the index back in 1926.

Chart reflects cumulative returns since the inception of the KAR Small Cap Growth strategy, January, 1, 1998 through March 31, 2026. The performance figures presented above are final and are net of fees unless otherwise specified. Net of fees returns reflect the payment of investment management fees and in some instances, other fees and expenses. KAR’s investment management fees are described in KAR’s Form ADV, Part 2A. Fees presented on the Disclosure page could vary from the assumed fee in the net-of-fee calculation, as actual fees paid by a particular client account differ depending on a variety of factors including, but not limited to, business unit and size of mandate. The fee used on the Disclosure page utilizes an assumed maximum fee across the firm’s business units, which is further detailed on that page. All periods less than one year are total returns for the noted timeframe and are not annualized. All rates of return include reinvested dividends and other earnings. Current performance may be lower or higher than the performance data shown. This material is deemed supplemental and complements the performance and disclosure presented on the last page and included in KAR’s strategy fact sheets available on kayne.com. To the extent actual performance results are shown in comparison to an index, the index is not actively managed and does not reflect the deduction of any investment management or other fees and expenses. Indices are not available for direct investment. This information is being provided by Kayne Anderson Rudnick Investment Management, LLC (“KAR”) for illustrative purposes only. Source: FactSet Research Systems. Returns may be affected by currency fluctuations. **Past performance is no guarantee of future results.**

### ANNUALIZED RETURNS

	1 Year	5 Years	10 Years
KAR Small Cap Growth (gross)	(21.62%)	(6.24%)	10.23%
KAR Small Cap Growth (net)	(22.66%)	(7.46%)	8.81%
Russell 2000® Growth Index	23.58%	1.62%	9.79%

## Disclosure

Year	Composite Gross Return (%)	Composite Net Return (%)	Russell 2000® Growth Index Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Number of Accounts	Internal Dispersion (%)	Composite Assets (\$ Millions)	Firm Assets (\$ Millions)
2015	2.57	1.25	(1.38)	14.08	15.16	17	0.40	244	8,095
2016	26.11	24.51	11.32	14.85	16.91	19	0.54	614	9,989
2017	39.03	37.29	22.17	12.69	14.80	40	1.40	2,038	14,609
2018	10.69	9.27	(9.31)	13.29	16.69	79	0.85	4,738	17,840
2019	41.37	39.59	28.48	14.18	16.60	94	0.89	6,416	25,685
2020	44.70	42.88	34.63	20.63	25.46	124	0.64	8,888	39,582
2021	5.69	4.33	2.83	19.15	23.40	159	0.60	7,749	47,269
2022	(29.37)	(30.31)	(26.36)	22.65	26.57	154	0.35	4,095	33,531
2023	21.43	19.88	18.66	20.98	22.10	148	0.36	4,301	41,186
2024	10.94	9.51	15.15	23.30	24.33	105	0.41	3,609	45,494

The Russell 2000® Growth Index is a trademark/service mark of Frank Russell Company. Russell® is a trademark of Frank Russell Company.

KAR (as defined below) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. KAR has been independently verified for the period from January 1, 1999 through December 31, 2024.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm’s policies and procedures related to composite, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis.

The Small Cap Growth Composite has had a performance examination for the period from January 1, 1999 through December 31, 2024. The verification and performance examination reports are available upon request.

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Kayne Anderson Rudnick Investment Management, LLC (“KAR”), 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. KAR 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 Growth Portfolios. Small Cap 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 inception date of the composite is January 1998. The composite was created in January 1998. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The firm’s list of composite descriptions, list of broad distribution pooled fund and the list of limited distribution pooled funds descriptions are available upon request.

The model management fee used for the net returns in this table is 1.30% for all periods presented. The standard Institutional management fee schedule currently in effect is as follows: 0.90% for the first \$25 million; 0.80% on the next \$25 million; 0.70% on the balance. The maximum Wealth Advisory Services Fee in effect is 1.30% for all assets, which breaks out as follows: 1.00% for the first \$3 million; 0.80% on the next \$2 million; 0.70% on the next \$5 million; 0.60% on the balance; with an additional 0.30% for any assets invested in separately managed accounts strategies. The standard investment advisory fee schedule currently in effect for clients not engaging in Wealth Advisory Services is 1.00%. 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.

The S&P 500 Index is a market capitalization-weighted index which includes 500 of the largest companies in leading industries of the U.S. economy. The indexes are calculated on a total return basis with dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment. EBITDA, or earnings before interest, taxes, depreciation and

amortization, is a measure of a company’s overall financial performance and is used as an alternative to net income in some circumstances. Beta: A quantitative measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Standard Deviation: Measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk.