

Thinking Beyond the Benchmark

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

ACTIVE OR PASSIVE?

In our opinion, so much of today’s investment advice boils down to this simple, and perhaps overly simplistic, question: Should I pay for active management with the hopes of generating excess investment returns or instead “buy the benchmark” through a lower-cost index fund? In the race for investment returns, index investing can make a compelling case as compared to many active equity strategies.

We believe, however, in the U.S. small-cap equity asset class, the benchmark does not always provide the most compelling returns, as evidenced by the Small Cap Universe Comparison chart below. This chart shows that many, if not most, active managers in the U.S. small-cap asset class, have outperformed the Russell 2000 benchmark over 3-, 5-, 10- and 20-year time frames. How these managers have achieved their excess returns, and the corresponding risk 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.

When comparing returns of active managers to

their benchmark, investors should review the underlying holdings in these portfolios.

In our view, the quality of the underlying businesses held in a portfolio is an important factor in the consistency of investment performance, and we believe that investing in quality businesses is an important contributor to capturing greater risk-adjusted returns, not just relative to the Russell 2000 Index but to the overall equity market.

By focusing on companies with protected and differentiated business models, the KAR portfolio management team creates a portfolio of businesses that exhibit strong fundamental characteristics, such as a high return on equity and invested capital, low debt-to-capital ratios, 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 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.

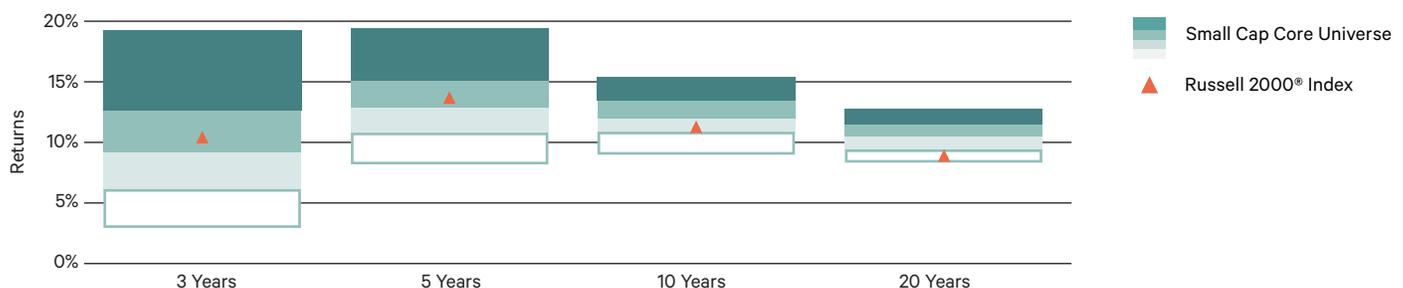


Our mission is identifying the highest quality businesses in which to invest. Benchmarks, in our view, are not built with the same discretion.

Percent of unprofitable companies:

KAR Small Cap Core:	0%
Russell 2000® Index:	42%

SMALL CAP UNIVERSE COMPARISON: Annualized Returns



Periods ending December 31, 2020. Data is obtained from FactSet Research Systems and is assumed to be reliable. The Small Cap Core Universe includes all managers categorized in the Small Cap Core 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 WELL-RUN, PROFITABLE COMPANIES

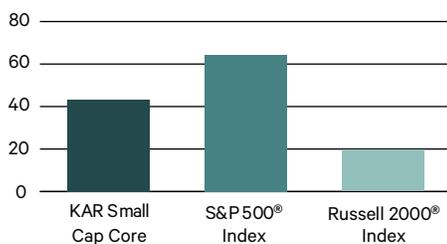
To get a sense of why we believe quality counts, take a look at one of our actively managed investments: the KAR Small Cap Core strategy. It invests in the small-company universe benchmarked to the Russell 2000 Index.

In our view, our focus on quality gives our Small Cap Core strategy stronger fundamental characteristics and, subsequently, better risk-and-reward characteristics than both the benchmark small-cap universe and the larger market, as measured by the S&P 500 Index.

WHAT'S IN OUR INVESTMENT PORTFOLIO?

HIGH-QUALITY STOCKS

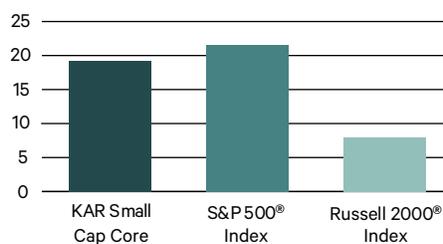
Percentage of Holdings with S&P Quality Rankings of B+ or Above



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

PROFITS

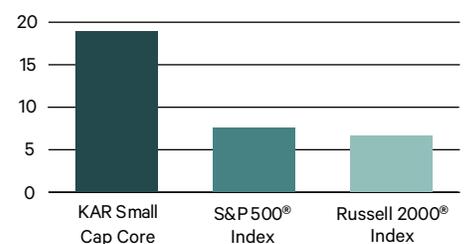
Five-Year Return on Equity



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

DEBT COVERAGE

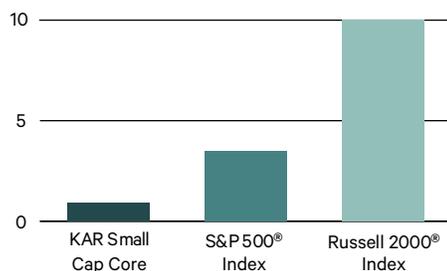
Interest Coverage Expense Ratio



In our view, a higher interest coverage ratio means companies can more easily pay their debts in good times and bad.

DEBT

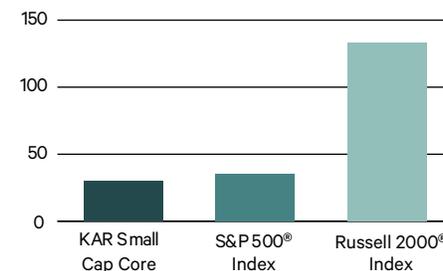
Total Debt/EBITDA



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

VALUE

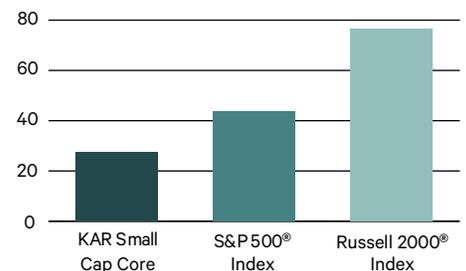
Trailing 12-Month Price-to-Earnings Ratio



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.

*Data as of December 31, 2020. 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. 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

We believe careful risk management is an important contributor to how the KAR Small Cap Core Portfolio has generated investment returns that have exceeded its benchmark. The small-cap equity asset class is known for its potential to deliver excess returns over large-cap stocks, but often with more risk. Because of our focus on high quality, we find the risk profile of the KAR Small Cap Core Portfolio is closer to that of the S&P 500 Index of U.S. large-cap companies than the Russell 2000 Index of U.S. small-cap companies.

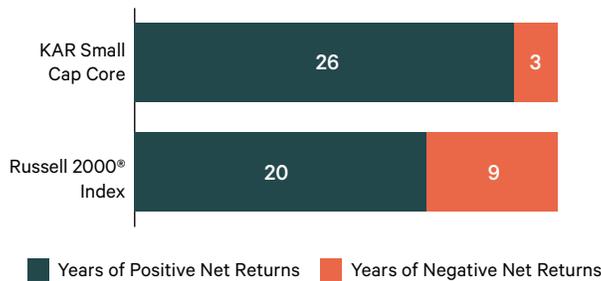
Investors often describe risk as the potential to lose money. The KAR Small Cap Core Portfolio, since its inception in 1992, has had more calendar years of positive returns and fewer calendar years of negative returns when compared to the Russell 2000 Index, as evidenced in the chart below. Further, during the three calendar-year periods that the KAR Small Cap Core Portfolio experienced losses, the strategy outperformed the Russell 2000 Index.

	BETA	STANDARD DEVIATION
KAR Small Cap Core (gross)	0.69	15.26
KAR Small Cap Core (net)	0.69	15.26
S&P 500® Index	0.62	14.56
Russell 2000® Index	1.00	19.28

Lower beta indicates less volatility than the market as a whole.

Lower standard deviations indicate more consistent returns over time.

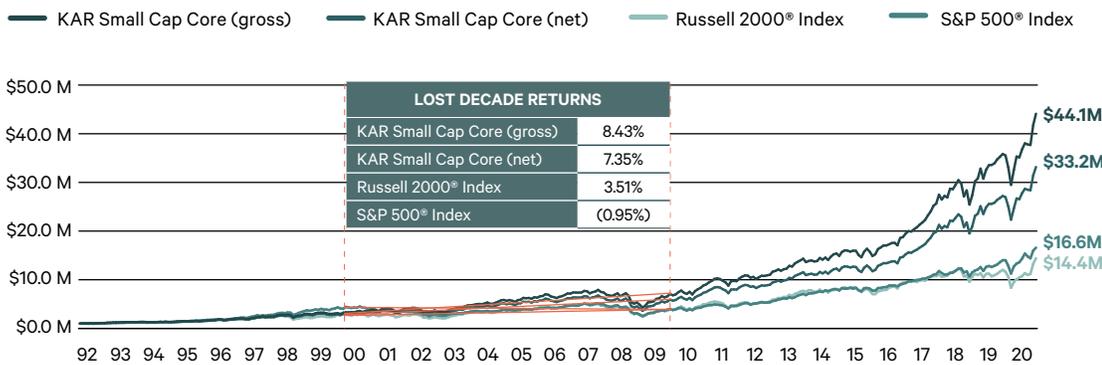
Data presented is since the inception of the KAR Small Cap Core strategy, April 1, 1992 through December 31, 2020. Data is obtained from FactSet Research Systems and is assumed to be reliable. Please see additional disclosures at the bottom of this page. **Past performance is no guarantee of future results.**



“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.”

UNIQUE PERFORMER, UNDENIABLE PERFORMANCE

In the end, investors want an investment strategy that delivers returns, through bull and bear markets, recessions and recoveries. To get a sense of how the KAR Small Cap Core strategy has achieved outperformance over the long term, consider how an investment of \$1 million in 1992 would look today. Through bull runs and despite bear markets, dollars invested in the KAR Small Cap Core strategy (gross of fees) have grown to more than double of those within the Russell 2000 Index and S&P 500 Index since 1992.



“Instead of “active or passive?” investors would do well to ask themselves “high quality or low?””

*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 Core strategy, April 1, 1992 through December 31, 2020. The performance figures presented above are preliminary, unaudited, unreconciled, 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. 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 included in KAR’s strategy fact sheets available on kayne.com. For further details on any referenced composites, please see the disclosure statement that accompanies the respective KAR strategy fact sheet found 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. This material is deemed supplemental and complements the performance and disclosure presented on the last page. Data is obtained from FactSet Research Systems and is assumed to be reliable. **Past performance is no guarantee of future results.**

DISCLOSURE

Year	Composite Gross Return (%)	Composite Net Return (%)	Russell 2000® Index Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Number of Accounts	Internal Dispersion (%)	Composite Assets (\$ Millions)	Firm Assets (\$ Millions)
2010	25.00	23.79	26.85	24.63	28.08	22	0.76	63	4,729
2011	10.14	9.08	(4.18)	20.61	25.34	88	0.67	362	5,232
2012	13.42	12.29	16.35	15.26	20.48	102	0.33	541	6,545
2013	30.10	28.84	38.82	11.81	16.68	121	1.41	1,018	7,841
2014	7.51	6.43	4.89	9.79	13.31	145	0.24	965	7,989
2015	2.37	1.36	(4.41)	11.28	14.16	157	0.23	1,048	8,095
2016	19.10	17.93	21.31	12.50	15.99	209	0.49	1,303	9,989
2017	36.61	35.29	14.65	11.59	14.11	392	0.70	2,091	14,609
2018	(0.83)	(1.82)	(11.01)	14.03	16.01	557	0.45	2,619	17,840
2019	40.88	39.51	25.52	14.77	15.93	719	0.89	3,692	25,685

The Russell 2000® 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, 2019.

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 Core Composite has been examined for the period from January 1, 1999 through December 31, 2019. The verification and performance examination reports are available upon request.

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 discretionary institutional and pooled Small Cap Core Portfolios. Small Cap Core Portfolios are invested in equity securities with market capitalizations consistent with the Russell 2000® 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® Index. The Russell 2000® Index is a market capitalization-weighted index 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 April 1992. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

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. As of January 1, 2011, the composite was redefined to include both taxable and tax-exempt accounts. Prior to December 31, 2010, only non-taxable portfolios are included in the composite. Prior to January 1, 2011, the composite minimum was \$250,000, and 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.

Non-fee-paying portfolios represent < 1% of the composite assets at year-end 2019.

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.

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.