Kayne Anderson Rudnick
Investment Management

SUSTAINABLE INVESTMENT POLICY

OVERVIEW

At Kayne Anderson Rudnick Investment Management, LLC (“KAR” and “the firm”), we seek to achieve the best investment outcomes for our clients by investing in high quality businesses with enduring competitive advantages. We derive value through our disciplined approach to identifying “quality” businesses through our deep fundamental analysis and our business analyst approach to understanding a company’s sustainable competitive advantage(s).

We believe that integrating sustainability characteristics into our assessment of company fundamentals helps us to better understand the full perspective of a company’s prospects for sustainable long-term value creation. Business sustainability risks and opportunities are not, by themselves, determinative of an investment decision. However, they can provide key information about the overall quality of a business and help assess a company’s long-term prospects within a given industry. We believe that the appropriate integration of any financially material risks and opportunities is critical to our investment process and our overall objective of maximizing risk-adjusted returns over the long-term.

PHILOSOPHY

A core component of KAR’s high quality investment philosophy is identifying differentiated businesses with exceptional economics. Our approach to identifying financially material corporate responsibility and sustainability risks or opportunities is complementary to our core philosophy and requires the investment team to understand and assess all the factors influencing positive or negative business outcomes. Three characteristics of our investment approach that differentiate us from other managers who take these considerations into their process are our deep fundamental analysis, concentrated portfolios, and long-term investment horizon.

Fundamental Analysis

Before making an investment decision, we seek to have a deep understanding of a business so we can better conceptualize its advantages and vulnerabilities. This process blends a qualitative analysis of the sources and sustainability of a company’s competitive protections with quantitative indicators, such as high returns on invested capital, high free cash flow, and low debt. Our initial analysis includes a thorough review of the company’s financial statements and history, which helps inform our assessment of future value. Our bottom-up fundamental research process focuses on the company-specific risks and opportunities, some of which may be sustainability-related in nature.

Concentrated Portfolios

Our focus on high quality companies and our deep fundamental analysis leads to relatively concentrated portfolios. We believe it is the conviction we have in the businesses that we own that provide value over simply owning a broad market index. This relatively high level of concentration means we are often large shareholders in the companies in which we invest, particularly those in the smaller to mid capitalization range, adding weight to our interactions with management teams. We are not an “activist”-type investor, nor do we seek to promote our own ideas or agenda on the businesses we own through engagement. Management excellence is a key component of our determination of quality. We do not take positions with the aim of influencing or changing company strategy, and we prefer to entrust those business imperatives to management. We do, however, find that our companies often want to hear from us on broader strategy issues, particularly during proxy season. Company management may contact us for our feedback on broad themes such as best practices for executive compensation or ways in which the company can improve its sustainability reporting. In these instances, we provide feedback in a purely consultative manner. We never intend to try and influence how a company runs their business. If we feel that a management team has strayed from their strategy or if we have questions about recent management decisions, we will engage to hear their rationale firsthand. In this way, our ownership stakes allow us to better monitor our businesses for any drift from our original investment thesis.

Long-Term Investment Horizon

It is our intention to hold our businesses over the long-term leading to low turnover (typically 25% to 35%). This long-term mindset naturally aligns with companies that have positive corporate sustainability characteristics given that many of the non- financial externalities evolve over long time horizons. We believe that for companies to be successful, they must balance the need for short-term operational success with longer-term strategic preparedness which includes accounting for sustainability risks over longer time periods. While we are not specifically looking to promote positive non-financial outcomes through our investment activities, we believe certain sustainable business practices may lead to competitive differentiation.

We do not prioritize the non-financial impact of our investments, so-called “double materiality,” as we are committed to the best risk-adjusted financial outcomes for our investors. In many ways, the businesses which have core components of our quality assessment naturally tend to have better management of sustainability risks and the ability to capitalize on potential opportunities. Integration of these factors into our process is therefore a seamless one and does not detract from our core philosophy.

INTEGRATION

At KAR, we treat corporate sustainability risks and opportunities the same way we would treat any other financially material factor that influences an investment outcome and may have an impact on a company’s sources of competitive advantage over time. When new businesses are considered for inclusion in the portfolio, the research team, consisting of portfolio managers and research analysts, including a dedicated research analyst focused on sustainability, work together to identify sustainability risks and opportunities that may have a material financial impact on the company.[1] We believe that our approach to integration of these key issues, derived from our fundamental business analyst approach, helps us to identify, analyze, and assess all the financially material considerations necessary to conduct thorough due diligence on companies.

As part of our assessment process, a dedicated ESG Research Analyst and a Research Associate arrive at a preliminary determination of the materiality of key sustainability issues and a company’s appropriate response given the scope of the opportunity or risk. The investment team drafts an individual company assessment report where a numerical rating for each key issue is assigned as well as an overall risk rating for the company. Any key issues or areas of asymmetric risk exposure are discussed with the relevant company analyst prior to finalization of an internal rating. To aid in this internal rating process, we use a SASB (Sustainability Accounting Standards Board) framework to inform our determination of the key issues for each sector that have the most potential for exerting a material financial impact on companies within that sector. Within this proprietary ratings methodology, we assess each company based on the relevant issues (and any others we may uncover in our analysis) and assign a score for each based-on company risk and response to the given issue. An overall rating of A, demonstrating leadership; B, indicating average performance; or C, indicating one or more sustainability issues of significant concern, is aggregated based on our assessment of risk and opportunity for each of the material key issues.

At KAR, we believe the primary investment teams are best situated to identify and respond to the relevant financially material risks and opportunities for each company. We believe that by having the portfolio manager, research analyst, and ESG research analyst work side-by-side on any given company research then we are better equipped to analyze and assess issues whenever they may arise. While most companies are exposed to sustainability risks in some way, these risks may not always rise to the level of financial materiality and therefore should not be a primary consideration when assessing investment outcomes in all cases.

ENGAGEMENT

The nature of our investment philosophy, particularly our emphasis on running high conviction, concentrated portfolios, often leads to us holding significant positions in our investments which from time to time affords us access to management teams.

Typically, we have favorable opinions of the management teams and governance of the companies we invest in—a core

[1] On limited occasions, an investment opportunity may require the portfolio management team to act quickly during periods of rapid market activity. The portfolio management team ultimately maintains discretion to make the investment if, in their estimation, the delay caused by conducting a more thorough sustainability review could lead to opportunity cost or loss. Where this happens, a post-investment review is conducted, though we expect that this will only occur under extreme circumstances.

component of our definition of quality. With this in mind, we prefer to allow management significant leeway to set and execute strategy for their business and often will vote proxies with management outside of extraordinary circumstances.

In some cases, particularly around proxy season, we will engage with company management or the Board if we determine it prudent to express our concern or support for specific company measures. As key shareholders, we often find that our investment companies want to hear our perspective and provide our views on developing sustainability topics, such as transparency of reporting and appropriate disclosures. We tend to approach these engagements as opportunities to share our broad perspectives on what we feel is relevant for the company, but we do not use them to influence companies to prioritize certain sustainability objectives over others. We are not activist investors and tend to defer to management and Board judgement when it comes to determining the right course of action for company strategy.

We generally do not attempt to influence companies through collaborative formal shareholder actions, though we may from time to time collaborate with other investors to provide collective views or opinions on certain important matters, such as mergers, acquisitions, or share buybacks. In many cases, we feel that formal shareholder actions, while well- intentioned, can provide unnecessary distraction to company management and divert resources away from more critical business needs. Additionally, the goal of many collaborative shareholder actions is to allow owners with smaller dispersed minority interests to concentrate their influence. Our position sizes are often considerably larger than most managers, which in those cases affords us periodic access to management teams if and when we deem it necessary to engage.

For further information on our engagement strategy and approach, please see our engagement policy.

RESOURCES

Our approach to assessing corporate responsibility and sustainability is rooted in the investment team's deep knowledge of the businesses the firm invests in or seeks to invest in when assessing risks and opportunities. Therefore, the primary investment team, including portfolio managers, research analysts, and the ESG research analyst, are best equipped to identify what is financially material and assess how this may impact company outcomes. Our entire research team approaches all the investment issues with a business analyst approach and a fundamental view toward company research.

In our evaluation of third-party data vendors focused on sustainability issues, we determined that there is no suitable ratings provider who meets our investment needs. This is primarily due to a lack of coverage of smaller and mid-capitalization names, a determinable large cap bias in ratings construction, and the lack of rigor in company analysis. We prefer to arrive at a determination of sustainability risks and opportunities through our own assessment of company disclosed information, our discussions with company management, and our review of recent company developments which could influence its relative risk positioning.

Additionally, we use multiple AI-driven big data processors to provide a broader sentiment indicator on key material topics and company trends with respect to SASB-defined material issues as well as to aid us in controversy identification. These vendors supplement our assessment of sustainability risks and opportunities by providing a more objective view of company trends with respect to potentially material indicators of risk and current news related to sustainability topics.

GOVERNANCE

The Firm's investing activities in relation to sustainability are governed by three responsible parties:

Leadership

KAR's Chief Investment Officer provides formal oversight for the integration of sustainability at the Firm.

ESG Steering Committee

KAR's Sustainable Investment Steering Committee is comprised of representatives from different functions across the Firm, including executive management, investment research, compliance, and marketing. The committee meets on a regular basis to ensure business alignment, to discuss the evolution of KAR's sustainable investment process, and to set objectives for further development of the Firm's sustainability priorities.

This committee is responsible for assessing the training needs for KAR's investment professionals on a routine basis and to provide updates at least annually. Additionally, the committee is responsible for reviewing and updating the relevant sustainability policies of the Firm at least annually.

Investment Team

Research is conducted by KAR's portfolio managers, research analysts, and a dedicated ESG research analyst. The investment team, led by the ESG Research Analyst, will review and update the internal sustainability rating for each of our holdings at least annually and as often as is needed based on new information or developments.