Kayne Anderson Rudnick
Investment Management

Engagement Policy

OVERVIEW

At Kayne Anderson Rudnick Investment Management, we believe that a key part of being active owners of the businesses in which we invest is engaging with leadership teams. The purpose of these engagements is to facilitate an ongoing dialogue around strategy and the key issues that may impact business and investment outcomes. Our approach to engagement focuses on high-quality interactions with company leaders to arrive at a better understanding of the value drivers of the business and management actions to mitigate potential risks. We believe engagement with the companies we own on any relevant topics, environmental, social, governance ("ESG"), or otherwise, can, over time, lead to better overall investment outcomes.

OBJECTIVES

The primary goal of any engagement is to identify potential value-enhancing improvements we believe will be to the benefit of shareholders over the long-term. We are not activists and do not seek to influence management judgement over day-to-day business operations or strategy. When solicited, we may provide our perspective on key items such as capital allocation decisions or sustainability objectives, but we do not use this as an opportunity to push an agenda. We generally support the management teams in place at the businesses in which we invest and prefer to allow them to run their businesses in ways that are most suitable for them based on their understanding as insiders. For this reason, we have not at this time developed an engagement schedule for proactively engaging with companies and pushing a specific agenda, ESG or otherwise. We recognize that each of our businesses is unique in the ways in which they operate and are therefore exposed to variable risks and opportunities. A one-size-fits-all approach would not only be counter-productive, but also superficial. Any engagements we have are structured to limit distractions and help our businesses focus on creating sustainable returns for shareholders.

APPROACH

Any engagements with companies that we have are conducted with financial materiality in mind. In our view, there are two broad classifications of ESG-related engagements that can be beneficial to us as shareholders and responsible owners: 'proactive' engagements where we seek to engage with one or multiple companies on a specific sustainability theme, issue, or opportunity that we are particularly focused on, and 'reactive' engagements where we are responding to or gauging company responsiveness to an event or potential material concern that has come up in the course of our diligence process. At present, we focus our efforts primarily on reactive engagements with companies where we have identified a specific ESG weakness or controversy that we feel could have an impact on business fundamentals. Our goal is to gain a better understanding of how this issue is being assessed and addressed internally. We may look to expand our approach and identify opportunities for more proactive engagements with companies as our process develops over time. We will not, however, approach proactive engagements in a manner that seeks to influence management's judgement over day-to-day business operations or strategy. We prefer to utilize engagement as a way to enhance our relationships with management teams and better understand the businesses we invest in.

IN PRACTICE

We believe that engagement works best as a complement to our fundamental research of the material risk considerations driving business outcomes. Where we focus our engagement efforts is a product of our assessment and scoring of the individual material risks carried out at the company level. If the investment team, led by the research analyst and ESG research analyst, determines that a company has significant exposure to an identified sustainability risk and the company is mismanaging their response to this risk, we will consider this a priority opportunity for engagement. Our proprietary ESG scoring methodology is designed to help us identify and monitor outlier risks which could have a greater material impact if not appropriately accounted for.

We do not limit our engagements to specific topics or themes and will address any sustainability concern with company representatives that we determine to be a potentially material driver of financial outcomes. Historically, we have tended to engage in a few areas more than others which may broadly be classified as those topics which have an immediate and noticeable negative impact on shareholder value. This may include issues pertaining to executive compensation, capital allocation, and social controversies which could lead to irreparable reputational harm. Our engagements in these areas are aimed at gaining a better understanding of the issue in question through targeted conversations with company representatives who are responsible for making the decision or responding to a concern which has arisen. In most cases, we prefer to use engagement to gather relevant information to help us make a more informed investment decision. We may take a more active stance and provide management with our views and opinions on certain topics such as capital allocation, particularly when we feel there are better uses available than those currently being employed.

Recently, we have been increasingly called upon by our companies to listen to their sustainability projects and provide feedback on ongoing or future initiatives. We view these types of engagements as beneficial for building relationships with our businesses and sharing our insight as to what matters to us from an investor perspective. As is true for all our engagements, we do not attempt to influence their strategy or provide advice on how to run their operations. However, we may provide feedback as to what would be beneficial for us as investors to better understand which may relate to broad themes like disclosure of sustainability metrics or what they believe are the key sustainability risks facing their business.

RESPONSIBILITIES

Our dedicated ESG research analyst works with portfolio managers and research analysts to determine where our engagement efforts are best directed. While everything is collaborative among investment team members, the ESG research analyst holds primary responsibility for identifying potential material risks and opportunities and structuring our engagement efforts accordingly. The portfolio managers and research analysts remain involved in our engagement efforts to ensure that any financially material considerations or changes in our understanding of the value drivers within a business are incorporated into our investment thesis.

COLLABORATION

Given the significant ownership stakes we can take in the companies in which we invest, we do not rely on the pooling of interests to engage collaboratively with our holdings. In rare cases, we have conducted collaborative engagements with like-minded investors when we felt there was added benefit to be gained through the representation of our shared interests, but these instances are infrequent. This may most likely occur after a significant and, in our view, value-destroying capital allocation decision is undertaken such as a merger announcement or acquisition at what we believe to be a poor price. When we are of the view that such a business decision may harm shareholders unilaterally, we may decide that collaborative but passive advocacy and expression of our discontent is in our clients' best interests.

ESCALATION

We allow flexibility in how we invest in companies and manage our portfolios. With that in mind, we do not have a strict escalation policy for identified material risks that may occur within the businesses that we own. Our engagements are meant to help us continue to make the most appropriate investment decisions in alignment with our fiduciary duties, which is always our main consideration. We deeply value our relationships with the management teams of the businesses in which we invest and our standard approach is to allow them consideration when they are making strategic decisions. In cases where we feel as though our concerns are not being adequately addressed or our views vastly differ from those of management, we can and will reconsider the merits of maintaining our investment in the business.