

# Outsmarting Volatility During Retirement

*In our view, the retirement “playbook” is being rewritten. Historically low bond yields have complicated the quest for reliable income in retirement. Not only do we want to build the equivalent of a steady paycheck, we also need it to keep pace with inflation.*

## A DIFFERENT PATH WITH LOWER VOLATILITY EQUITIES

One potential solution for creating a reliable income stream in retirement is the systematic withdrawal from an equity portfolio. But it has a catch: market volatility can severely disrupt smart planning. Big losses can get income off track—and keep it off track. Thus, in order to employ this technique effectively, it’s important to choose investments with the potential for steadier compounding.

Take the example of a \$1,000,000 nest egg from which we’re going to withdraw 5% per year: \$50,000 to start, adjusting upward each year to account for a 3% inflation rate. We’ll compare what happens to our nest egg across three different vehicles, two indexed and one actively managed: the Russell 2000 Value Index, S&P 500 Index, and the Kayne Anderson Rudnick (KAR) Small Cap Quality Value portfolio.

The graphic on the following page shows the results going back to June 1998, the inception date of the KAR Small Cap Quality Value strategy.

### KEY TAKEAWAYS:



*With global bond yields at rock-bottom levels, we believe there is a need to deploy quality equity portfolios more than ever to help fund retirement income.*



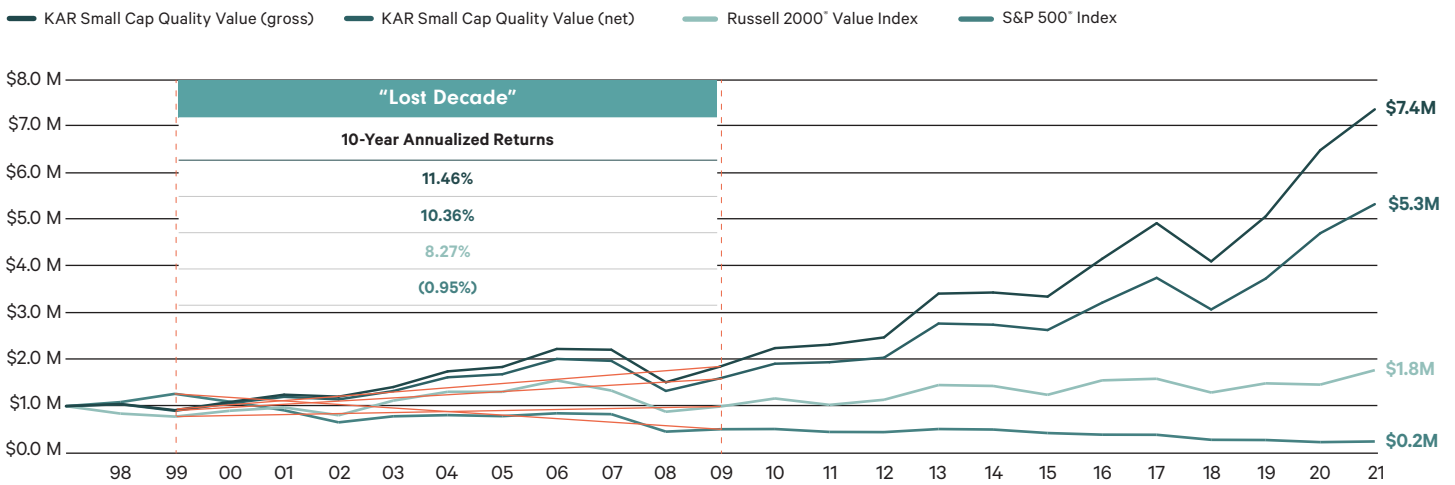
*Because equity markets are volatile, however, investors need to remain vigilant in choosing defensive or risk-mitigating strategies. KAR believes a focus on high-quality companies is a strong strategy for providing downside protection during volatile periods and over market cycles.*



*As we highlight below, even comparing two equity strategies with the same returns, we think the one with better downside protection during falling markets is better positioned to help generate income in retirement, though it is important to note that past performance is no guarantee of future results.*

**A STEADIER SEQUENCE OF RETURNS**

June 1998–March 2021



Starting value of \$1M at June 1, 1998. Withdrawals taken December 31 of each year. Returns shown for 1998 represent seven months of performance only from June 1, 1998 (inception date of the strategy). “Lost Decade” reflects the time period between January 1, 2000 to December 31, 2009 when the S&P 500 Index posted its first negative “named” decade since inception of the index in 1926. Chart returns are cumulative. “Lost Decade” returns are annualized. The performance figures presented above are preliminary, unaudited, unreconciled, and are gross of fees unless otherwise specified. Any net of fees returns shown reflect the payment of investment management fees and in some instances, other fees and expenses, while any gross of fees returns shown do not. For any gross of fees returns shown, a client’s return will be reduced over time by the investment management fees and other expenses their account incurs over time as a client are compounded. 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. Data is obtained from systems believed by KAR to be reliable. 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. While the securities comprising any such index are not identical to those in the composite, KAR believes this comparison may be useful in evaluating performance. **Past performance is no guarantee of future results.**

Even after withdrawing an inflation-adjusted 5% per year—a total of \$1,622,644—the KAR portfolio ended up at \$7,352,167 gross of fees and \$5,322,940 net of fees. Further, the KAR strategy’s long-term performance is highlighted by fewer down years versus the broader equity markets—even during the “lost decade” of the 2000s.

In fact, since inception of the KAR Small Cap Quality Value strategy in 1998 the Russell 2000 Value Index experienced eight annual losses, while KAR only had four.

The data in the table on the following page exhibits the case of starting retirement at the onset of a prolonged bear market. An investment that offers a more consistent return pattern, including smaller drawdowns, is typically better able to sustain a healthy retirement. In the long run, it matters, as even with a sharp market rebound in 2003 after such an unlucky start, an investment in the S&P 500 would result in negative 10-year annualized returns over this timeframe. The Russell 2000 Value Index produced okay results after a tough start. Due to playing defense well in the early choppy markets, the KAR Small Cap Quality Value portfolio in this example generated the needed income and left a much larger nest egg to boot.

## STARTING RETIREMENT BEHIND THE 8-BALL

	5% Initial Draw + 3% Inflation (\$)	KAR Small Cap Quality Value (gross) (\$)	Return (%)	KAR Small Cap Quality Value (net) (\$)	Return (%)	Russell 2000® Value Index (\$)	Return (%)	S&P 500® Index (\$)	Return (%)
2000	\$50,000	\$1,199,233	24.92	\$1,187,013	23.70	\$1,178,253	22.83	\$858,956	(9.10)
2001	\$51,500	\$1,380,620	19.42	\$1,352,631	18.29	\$1,291,991	14.02	\$705,362	(11.89)
2002	\$53,045	\$1,342,958	1.11	\$1,300,942	0.10	\$1,091,334	(11.43)	\$496,429	(22.10)
2003	\$54,636	\$1,582,109	21.88	\$1,515,527	20.69	\$1,539,011	46.03	\$584,190	28.68
2004	\$56,275	\$1,970,469	28.10	\$1,865,814	26.83	\$1,825,096	22.25	\$591,487	10.88
2005	\$57,964	\$2,087,457	8.88	\$1,953,275	7.79	\$1,853,049	4.71	\$562,577	4.91
2006	\$59,703	\$2,538,218	24.45	\$2,347,740	23.25	\$2,228,433	23.48	\$591,729	15.79
2007	\$61,494	\$2,532,254	2.19	\$2,313,974	1.18	\$1,949,059	(9.78)	\$562,745	5.49
2008	\$63,339	\$1,746,879	(28.51)	\$1,573,648	(29.26)	\$1,321,967	(28.92)	\$291,203	(37.00)
2009	\$65,239	\$2,152,771	26.97	\$1,913,356	25.73	\$1,528,752	20.58	\$303,030	26.46
2010	\$67,196	\$2,625,935	25.10	\$2,303,055	23.88	\$1,836,161	24.50	\$281,480	15.06
2011	\$69,212	\$2,729,134	6.57	\$2,361,491	5.54	\$1,665,948	(5.50)	\$218,213	2.11
2012	\$71,288	\$2,929,981	9.97	\$2,499,706	8.87	\$1,895,381	18.05	\$181,846	16.00
2013	\$73,427	\$4,059,736	41.06	\$3,419,040	39.72	\$2,476,262	34.52	\$167,316	32.39
2014	\$75,629	\$4,107,859	3.05	\$3,411,867	2.00	\$2,505,069	4.22	\$114,590	13.69
2015	\$77,898	\$4,023,420	(0.16)	\$3,294,468	(1.16)	\$2,240,073	(7.47)	\$38,277	1.38
2016	\$80,235	\$5,018,927	26.74	\$4,054,304	25.50	\$2,870,855	31.74	(\$37,380)	11.96
2017	\$82,642	\$5,963,998	20.48	\$4,753,965	19.30	\$3,013,227	7.84	(\$128,183)	21.83
2018	\$85,122	\$4,996,280	(14.80)	\$3,924,406	(15.66)	\$2,540,484	(12.86)	(\$207,685)	(4.38)
2019	\$87,675	\$6,197,224	25.79	\$4,800,641	24.56	\$3,021,725	22.39	(\$360,752)	31.49
2020	\$90,306	\$7,957,750	29.87	\$6,083,126	28.60	\$3,071,455	4.63	(\$517,432)	18.40
<b>Total Withdrawn</b>	<b>\$1,433,824</b>	<b>Average Annual Return</b>	<b>13.15</b>		<b>12.03</b>		<b>9.18</b>		<b>6.61</b>

Starting value of \$1M at January 1, 2000. Withdrawals taken December 31 of each year. The performance figures presented above are preliminary, unaudited, unreconciled, and are gross of fees unless otherwise specified. Any net of fees returns shown reflect the payment of investment management fees and in some instances, other fees and expenses, while any gross of fees returns shown do not. For any gross of fees returns shown, a client's return will be reduced over time by the investment management fees and other expenses their account incurs over time as a client are compounded. 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. Data is obtained from systems believed by KAR to be reliable. 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. While the securities comprising any such index are not identical to those in the composite, KAR believes this comparison may be useful in evaluating performance. **Past performance is no guarantee of future results.**

The Russell 2000 Value Index is a market capitalization-weighted index of value-oriented stocks of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The S&P 500 Index is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. 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.

## DISCLOSURE

Year	Composite Gross Return (%)	Composite Net Return (%)	Russell 2000® Value Index Annual Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Number of Accounts	Internal Dispersion (%)	Composite Assets (\$ Millions)	Firm Assets (\$ Millions)
2010	25.10	23.88	24.50	24.43	28.77	77	0.60	98	4,729
2011	6.57	5.54	(5.50)	21.64	26.42	106	0.48	521	5,232
2012	9.97	8.87	18.05	16.24	20.17	120	0.35	474	6,545
2013	41.06	39.72	34.52	14.50	16.05	142	1.05	646	7,841
2014	3.05	2.00	4.22	13.06	12.98	149	0.52	581	7,989
2015	(0.16)	(1.16)	(7.47)	13.94	13.65	151	0.20	535	8,095
2016	26.74	25.50	31.74	14.30	15.72	141	1.13	711	9,989
2017	20.48	19.30	7.84	12.32	14.17	191	0.56	996	14,609
2018	(14.80)	(15.66)	(12.86)	14.42	15.98	152	0.35	895	17,840
2019	25.79	24.56	22.39	14.59	15.90	126	0.65	1,107	25,685

The Russell 2000® Value 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 Quality Value 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 fully discretionary institutional and pooled Small Cap Quality Value Portfolios. Small Cap Quality Value Portfolios are invested in equity securities with capitalizations consistent with the Russell 2000® Value 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® Value Index. The Russell 2000® Value Index is a market capitalization-weighted index of value-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 independent verifiers. The composite was created in June 1998. 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. 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.

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.