

Outsmarting Volatility During Retirement

In our view, the retirement “playbook” is being rewritten. The quest for reliable income in retirement has become more complicated. 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

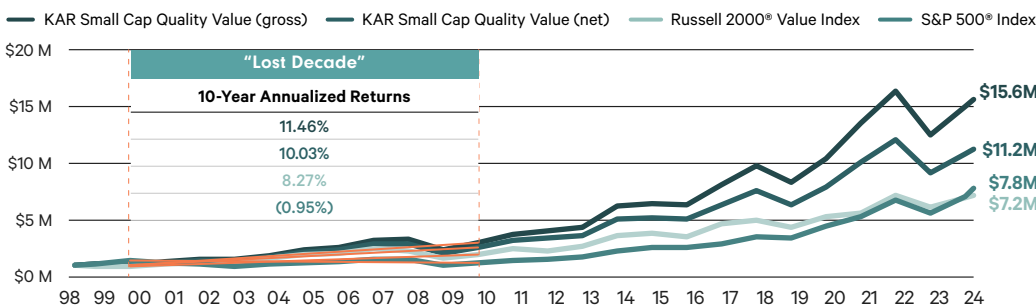
We believe one potential solution for creating a reliable income stream in retirement is the systematic withdrawal from an equity portfolio. But it has a catch: market volatility can severely disrupt smart planning. Big losses can get income off track—and keep it off track. From our perspective, in order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

Take the example of 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 chart below shows the results of all three going back to June 1998, the inception date of the KAR Small Cap Quality Value strategy.

Since 1998, the KAR Small Cap Quality Value strategy’s long-term performance is highlighted by fewer down years versus the broader equity markets—even during the “lost decade” of the 2000s. Specifically, during the period from inception, the Russell 2000 Value Index experienced nine annual losses while KAR only had six (based on net of fee returns). As illustrated by the growth of a dollar chart, the steadier return stream of the KAR strategy resulted in a much larger ending value over time.

A LESS VOLATILE SEQUENCE OF RETURNS

June 1, 1998–March 31, 2024



KEY TAKEAWAYS



We believe there is a need to deploy quality equity portfolios 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 an effective strategy for providing downside protection during volatile periods and over market cycles.



As we highlight on the next page, even when comparing various equity strategies, 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.

ANNUALIZED RETURNS

	KAR Small Cap Quality Value (gross)	KAR Small Cap Quality Value (net)	Russell 2000® Value Index
1 Year	21.60%	20.05%	18.75%
5 Years	11.18%	9.76%	8.17%
10 Years	10.11%	8.70%	6.87%

*KAR defines a “high quality” business as one that possesses a durable competitive advantage and consequently has the ability to generate high and enduring profitability. “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. “Lost Decade” returns are annualized. Chart reflects cumulative returns since the inception of the KAR Small Cap Quality Value strategy, June 1, 1998 through March 31, 2024. The performance figures presented above are final and 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. 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. 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.** Returns could be reduced, or losses incurred, due to currency fluctuations.

The data in the next two tables exhibit the case of starting retirement at the onset of a prolonged bear market. In our view, a portfolio invested in high-quality companies offers a more consistent return pattern, including smaller drawdowns, and we believe it is better able to sustain a healthy retirement.

To further illustrate this point, we show the growth of \$1 million dollars based upon the returns of the KAR portfolio, the Russell 2000 Value Index, and the S&P 500 Index in the table below. Since January 1, 2000, the Russell 2000 Value Index experienced seven annual losses while KAR only had five (based on net of fee returns).

STARTING RETIREMENT BEHIND THE 8-BALL

	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	\$1,249,233	24.92	\$1,233,366	23.34	\$1,228,253	22.83	\$908,956	(9.10)
2001	\$1,491,829	19.42	\$1,454,098	17.90	\$1,400,503	14.02	\$800,919	(11.89)
2002	\$1,508,452	1.11	\$1,451,296	(0.19)	\$1,240,494	(11.43)	\$623,912	(22.10)
2003	\$1,838,443	21.88	\$1,746,276	20.33	\$1,811,461	46.03	\$802,878	28.68
2004	\$2,355,119	28.10	\$2,208,718	26.48	\$2,214,429	22.25	\$890,248	10.88
2005	\$2,564,222	8.88	\$2,373,952	7.48	\$2,318,673	4.71	\$933,977	4.91
2006	\$3,191,273	24.45	\$2,916,963	22.87	\$2,863,086	23.48	\$1,081,491	15.79
2007	\$3,261,090	2.19	\$2,942,301	0.87	\$2,583,155	(9.78)	\$1,140,908	5.49
2008	\$2,331,235	(28.51)	\$2,075,327	(29.47)	\$1,835,992	(28.92)	\$718,797	(37.00)
2009	\$2,959,967	26.97	\$2,601,556	25.36	\$2,213,788	20.58	\$909,023	26.46
2010	\$3,702,938	25.10	\$3,213,226	23.51	\$2,756,254	24.50	\$1,045,952	15.06
2011	\$3,946,062	6.57	\$3,380,121	5.19	\$2,604,642	(5.50)	\$1,068,040	2.11
2012	\$4,339,543	9.97	\$3,669,488	8.56	\$3,074,807	18.05	\$1,238,964	16.00
2013	\$6,121,554	41.06	\$5,111,297	39.29	\$4,136,266	34.52	\$1,640,241	32.39
2014	\$6,308,156	3.05	\$5,199,149	1.72	\$4,310,714	4.22	\$1,864,766	13.69
2015	\$6,298,111	(0.16)	\$5,123,734	(1.45)	\$3,988,756	(7.47)	\$1,890,572	1.38
2016	\$7,982,039	26.74	\$6,411,322	25.13	\$5,254,820	31.74	\$2,116,683	11.96
2017	\$9,616,501	20.48	\$7,625,842	18.94	\$5,666,686	7.84	\$2,578,787	21.83
2018	\$8,193,381	(14.80)	\$6,412,119	(15.92)	\$4,937,724	(12.86)	\$2,465,724	(4.38)
2019	\$10,306,575	25.79	\$7,963,540	24.20	\$6,043,479	22.39	\$3,242,093	31.49
2020	\$13,383,146	29.85	\$10,209,463	28.20	\$6,323,551	4.63	\$3,838,598	18.40
2021	\$16,151,186	20.68	\$12,164,255	19.15	\$8,111,245	28.27	\$4,940,484	28.71
2022	\$12,370,208	(23.41)	\$9,193,282	(24.42)	\$6,936,466	(14.48)	\$4,045,720	(18.11)
2023	\$14,846,272	20.02	\$10,892,744	18.49	\$7,952,416	14.65	\$5,109,243	26.29
	Avg. Annual Return	11.90		10.46		9.02		7.03

Starting value of \$1M at January 1, 2000. The performance figures presented above are final 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. 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. 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.** Returns could be reduced, or losses incurred, due to currency fluctuations.

Now let's look at the effect of systematically withdrawing 5% per year, \$50,000 to start, and adjusting that upward each year to account for a 3% inflation rate, by applying these withdrawal amounts to the amounts calculated in the table on the previous page.

	5% Initial Draw + 3% Inflation (\$)	KAR Small Cap Quality Value (gross) (\$)	KAR Small Cap Quality Value (net) (\$)	Russell 2000® Value Index (\$)	S&P 500® Index (\$)
2000	\$50,000	\$1,199,233	\$1,183,366	\$1,178,253	\$858,956
2001	\$51,500	\$1,380,620	\$1,343,649	\$1,291,991	\$705,362
2002	\$53,045	\$1,342,958	\$1,288,015	\$1,091,334	\$496,429
2003	\$54,636	\$1,582,109	\$1,495,172	\$1,539,011	\$584,190
2004	\$56,275	\$1,970,469	\$1,834,842	\$1,825,096	\$591,487
2005	\$57,964	\$2,087,457	\$1,914,143	\$1,853,049	\$562,577
2006	\$59,703	\$2,538,218	\$2,292,276	\$2,228,433	\$591,729
2007	\$61,494	\$2,532,254	\$2,250,694	\$1,949,059	\$562,745
2008	\$63,339	\$1,746,879	\$1,524,169	\$1,321,967	\$291,203
2009	\$65,239	\$2,152,771	\$1,845,406	\$1,528,752	\$303,030
2010	\$67,196	\$2,625,935	\$2,212,095	\$1,836,161	\$281,480
2011	\$69,212	\$2,729,134	\$2,257,781	\$1,665,948	\$218,213
2012	\$71,288	\$2,929,981	\$2,379,777	\$1,895,381	\$181,846
2013	\$73,427	\$4,059,736	\$3,241,409	\$2,476,262	\$167,316
2014	\$75,629	\$4,107,859	\$3,221,492	\$2,505,069	\$114,590
2015	\$77,898	\$4,023,420	\$3,096,865	\$2,240,073	\$38,277
2016	\$80,235	\$5,018,927	\$3,794,868	\$2,870,855	(\$37,380)
2017	\$82,642	\$5,963,998	\$4,431,101	\$3,013,227	(\$128,183)
2018	\$85,122	\$4,996,280	\$3,640,729	\$2,540,484	(\$207,685)
2019	\$87,675	\$6,197,219	\$4,433,933	\$3,021,725	(\$360,752)
2020	\$90,306	\$7,956,818	\$5,594,111	\$3,071,455	(\$517,432)
2021	\$93,015	\$9,509,515	\$6,572,193	\$3,846,753	(\$758,978)
2022	\$95,805	\$7,187,541	\$4,871,209	\$3,193,809	(\$717,326)
2023	\$98,679	\$8,527,545	\$5,673,017	\$3,562,912	(\$1,004,573)
Total Withdrawn	\$1,721,324				

Starting value of \$1M at January 1, 2000. Withdrawals taken December 31 of each year. The performance figures presented above are final 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. 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. 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.** Returns could be reduced, or losses incurred, due to currency fluctuations.

Based on the example above, even after a sharp market rebound in 2003 after an unlucky start, a more consistent return pattern matters: the S&P 500 resulted in a negative nest egg and the Russell 2000 Value only produced mediocre results, while the KAR Small Cap Quality Value portfolio generated the needed income and left a larger nest egg to boot due to playing defense in the early choppy markets.

DISCLOSURE

Year	Composite Gross Return (%)	Composite Net Return (%)	Russell 2000® Value Index Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Number of Accounts	Internal Dispersion (%)	Composite Assets (\$ Millions)	Firm Assets (\$ Millions)
2014	3.05	1.72	4.22	13.06	12.98	149	0.52	581	7,989
2015	(0.16)	(1.45)	(7.47)	13.94	13.65	151	0.20	535	8,095
2016	26.74	25.13	31.74	14.30	15.72	141	1.13	711	9,989
2017	20.48	18.94	7.84	12.32	14.17	191	0.56	996	14,609
2018	(14.80)	(15.92)	(12.86)	14.42	15.98	152	0.35	895	17,840
2019	25.79	24.20	22.39	14.59	15.90	126	0.65	1,107	25,685
2020	29.85	28.20	4.63	22.12	26.49	121	0.97	1,835	39,582
2021	20.68	19.15	28.27	19.96	25.35	118	0.36	2,932	47,269
2022	(23.41)	(24.42)	(14.48)	23.28	27.66	125	0.24	1,942	33,531
2023	20.02	18.49	14.65	20.07	22.06	115	0.44	2,032	41,186

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, 2023.

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 Quality Value Composite has had a performance examination for the period from January 1, 1999 through December 31, 2023. 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 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 inception date of the composite is June 1998. The composite was created in June 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 Russell 2000® Value Index is a market capitalization-weighted index of value-oriented stocks of the smallest 2,000 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.