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# Kayne Anderson Rudnick Investment Management

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**March 30, 2020**

This brochure (the “Brochure”) provides information about the qualifications and business practices of Kayne Anderson Rudnick Investment Management, LLC (“Kayne Anderson Rudnick”). If you have any questions about the contents of this Brochure, please contact us at +1.800.231.7414 and/or [compliance@kayne.com](mailto:compliance@kayne.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Kayne Anderson Rudnick is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information you can use to determine whether to hire or retain an adviser.

Additional information about Kayne Anderson Rudnick is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s website also provides information about any persons affiliated with Kayne Anderson Rudnick who are registered as investment adviser representatives of Kayne Anderson Rudnick.

## Item 2 – Material Changes

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In the past, we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. You will receive a Brochure of any material changes to this and subsequent Brochures within 120 days of the close of the fiscal year of our business, which is December 31. We will provide other ongoing disclosure information about material changes as necessary.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Where possible, we will provide our Brochure, including any updates, electronically to the primary e-mail address we have on file for you. At any time, you may also request our Brochure by contacting Compliance at +1-800-231-7414 or [compliance@kayne.com](mailto:compliance@kayne.com). Our Brochure is available on our website, [www.kayne.com](http://www.kayne.com), and is also free of charge upon request.

### Material Changes

The following material changes were made to this Form ADV, Part 2A since our last annual update dated March 27, 2019:

- Item 4 was updated under the “Advisory Services - Unified Managed Accounts (UMA)” heading to include a description of our overlay model.
- Item 8 was revised to update the “Risks of Investing” section.
- Item 10 was updated throughout, including to the list of our affiliates, and we added additional detail pertaining to one of our affiliates, Virtus Investment Partners International, Ltd.
- Item 11 was updated under the “Participation or Interest in Client Transactions” heading to include a discussion of our practice of allowing employees to have separately managed accounts in our investment strategies.
- Item 13 was updated to discuss our financial planning services.
- Item 14 was updated throughout to describe solicitation arrangements currently in place in general and with two of our affiliates, VP Distributors, LLC and Virtus Investment Partners International, Ltd. We removed reference to the cross-solicitation agreement with Kayne Anderson Capital Advisors, L.P., which has been terminated.

## Item 3 – Table of Contents

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## Item 4 – Advisory Business

Kayne Anderson Rudnick Investment Management, LLC (“Kayne Anderson Rudnick” or the “Firm”) is 100% owned by Virtus Investment Partners, Inc. (“VRTS” or “Virtus”), a publicly traded multi-manager asset management business, as of December 31, 2008 (Nasdaq: VRTS). Kayne Anderson Rudnick has acted as an investment adviser for over 30 years and has been an SEC-registered investment adviser since 1985.

Kayne Anderson Rudnick provides discretionary advisory and sub-advisory investment services and manages investment advisory accounts in its various investment strategies for charitable organizations and endowments, professional and religious organizations, corporations and other commercial entities, pension and profit-sharing plans, insurers, banks, family offices, private pooled funds, open-end investment companies, closed-end funds, UCITS, collective investment trusts, registered investment advisers, individuals, trusts, and estates. These services are tailored to the needs and investment mandates of each client, and clients can generally impose restrictions on investing in certain securities or types of securities in their accounts managed by the Firm when negotiating their investment advisory agreement. Kayne Anderson Rudnick provides investment advisory services for accounts that are (i) established directly with the client; (ii) introduced through wrap-fee programs of other financial-services firms, such as broker-dealers, registered investment advisers, and other intermediaries; or (iii) sub-advisory relationships with affiliated and non-affiliated mutual funds.

### Assets under Management

As of December 31, 2019, Kayne Anderson Rudnick's total assets under management was approximately \$33,006,400,000. Approximately \$25,685,500,000 was managed on a discretionary basis, and \$12,197,700,000 was managed on a non-discretionary basis.

### Advisory Services – Institutional

Kayne Anderson Rudnick provides investment services and manages investment advisory accounts for corporations and other commercial entities, charitable organizations and endowments, family offices, professional and religious organizations, pension and profit-sharing plans, insurers, banks, open-end investment companies, closed-end funds, UCITS, and other fund structures that fall under UCITS. Kayne Anderson Rudnick manages these accounts subject to each client's investment guidelines. Kayne Anderson Rudnick is adviser to the Kayne Anderson Rudnick Collective Investment Trust (the “CIT”). SEI Trust Company is the Trustee of the CIT, and SEI Institutional Transfer Agent Inc. serves as transfer agent for the CIT.

### Advisory Services – Mutual Funds

Kayne Anderson Rudnick provides investment management services to the following portfolios, all of which are affiliated with Kayne Anderson Rudnick, as a sub-adviser under sub-advisory agreements with Virtus Investment Advisers Inc. and Virtus Alternative Investment Advisers Inc., both of whom are affiliates to Kayne Anderson Rudnick:

- Virtus KAR Small-Cap Core Fund
- Virtus KAR Small-Cap Growth Fund
- Virtus KAR Small-Cap Value Fund

- Virtus KAR Mid-Cap Core Fund
- Virtus KAR Global Quality Dividend Fund
- Virtus KAR Small-Cap Growth Series
- Virtus KAR Capital Growth Fund
- Virtus KAR Small-Cap Value Series
- Virtus KAR Mid-Cap Growth Fund
- Virtus KAR International Small-Cap Fund
- Virtus KAR International Small-Mid Cap Fund
- Virtus KAR Capital Growth Series
- Virtus KAR Emerging Markets Small-Cap Fund
- Virtus KAR Small-Mid Cap Core Fund
- Virtus Tactical Allocation Fund (Equity Portion)
- Virtus Strategic Allocation Series (Equity Portion)
- Virtus KAR Long/Short Equity Fund

### Advisory Services - Other

Kayne Anderson Rudnick provides investment management services as a sub-adviser to the Virtus GF U.S. Small Cap Focus Fund, which is a UCITS fund distributed by VP Distributors, LLC, an affiliate of Kayne Anderson Rudnick.

Kayne Anderson Rudnick provides investment management services as a sub-adviser to non-affiliated mutual funds and UCITS.

### Advisory Services – Wrap Programs

In wrap-fee accounts, Kayne Anderson Rudnick is chosen by the client to act as an investment sub-adviser through a selection process administered by the wrap sponsor. The client information compiled through the selection process enables Kayne Anderson Rudnick to provide individualized investment services, which it maintains through ongoing contact with the wrap sponsor.

Kayne Anderson Rudnick serves as investment adviser under certain wrap programs and as investment sub-adviser under other wrap programs, and at times acts in both capacities under different programs sponsored by the same financial-services firm. Wrap-program sponsors typically offer comprehensive brokerage, custodial, and advisory services for a single “wrap fee,” based on a percentage of assets under management. The wrap sponsor pays Kayne Anderson Rudnick a portion of the wrap fee in connection with the advisory services it provides. Under some arrangements, the wrap sponsor and Kayne Anderson Rudnick each charge a separate fee for their respective services.

Wrap-account clients only invest in Kayne Anderson Rudnick's model investment strategies. Non-wrap clients also invest in Kayne Anderson Rudnick's model strategies. The model strategies that are generated for each investment strategy are implemented across all client accounts, whether wrap or non-wrap. Deviations from the model portfolio can occur for various reasons, including to accommodate specific investment guidelines of an individual client and, as a result, certain accounts may not be aligned with a strategy's model portfolio and performance differences can occur between such an account and the model portfolio for the strategy.

The wrap sponsor's services include, in addition to assistance with the selection of one or more investment advisers, asset allocation advice; execution of portfolio transactions (free of commissions); custodial services, including trade confirmation and periodic reporting; continuing evaluation of investment performance; and consultation on investment

objectives and suitability. Each client should evaluate whether a given wrap program is suitable for his or her needs. The client should consider, depending upon the level of the single fee charged under a wrap program, the package of services provided by the wrap sponsor. Based upon the amount of portfolio activity, or turnover, in the account and the value of custodial and portfolio monitoring services, the single fee that a wrap client pays their wrap sponsor can be higher or lower than the total cost of all services the client is receiving if they were to pay for each service separately. Kayne Anderson Rudnick's investment strategies often have relatively low rates of portfolio turnover and, for wrap programs that include investment strategies with low rates of turnover, the single all-inclusive fee that a wrap client pays to their wrap sponsor could be more than if the client was paying solely an asset-based investment advisory fee alongside applicable brokerage commissions and custodial and other fees charged by such client's broker-dealer(s) and custodial bank(s). Clients should assess the overall level of service provided by their wrap sponsor alongside other factors described herein when determining whether a given wrap program is suitable for his or her needs.

## Advisory Services – Unified Managed Accounts (UMA)

Kayne Anderson Rudnick provides investment advisory services, as sub-adviser or model provider, to other investment advisers that seek specific securities-related advice and recommendations. The advice and recommendations are provided through the development of unified managed accounts ("UMAs") or other model-driven programs. Kayne Anderson Rudnick does not enter into a direct relationship with the clients of these investment advisers and does not provide administrative or account-specific performance reporting services to those clients. Kayne Anderson Rudnick typically provides periodic market commentary and information relating to the performance of its models to these investment advisers but does not initiate any trading in the UMAs to these investment advisers. However, at the direction of these investment advisers, Kayne Anderson Rudnick can implement trading in these UMAs. Kayne Anderson Rudnick recommendations that are provided to investment advisers are used by such investment advisers in their sole discretion, and therefore, it is at the investment adviser's discretion whether or not and to what extent to implement the UMA or each recommendation.

Kayne Anderson Rudnick provides investment advisory services to UMA or model-driven platforms in investment strategies where our portfolios hold positions where limited liquidity or other liquidity constraints could pose an issue in UMA or other model-driven platform trading implementation. In these circumstances in its sole discretion, Kayne Anderson Rudnick implements a process that results in what we call a "Liquidity Overlay Model," that holds replacement securities with lower liquidity constraints without materially altering the characteristics of the portfolio. A replacement security can be a completely new holding, a current holding (or holdings) with a higher weight, or a combination of these as determined by the strategy's portfolio manager. The determination to deploy a Liquidity Overlay Model in place of the standard model of the investment strategy is the result of an analysis of the strategy's and the firm's assets under management, position weights in the model portfolio, and historical volume data based on anticipated access to liquidity in the holdings. Based on this review, a determination is made as to which security (or securities) need to be replaced with alternative securities in the Liquidity Overlay Model and, in doing so, Kayne Anderson Rudnick seeks to minimize differences between the standard model of the investment strategy. For example,

a replacement security for the Liquidity Overlay Model will likely be from the same sector as the security it is replacing and will be initiated at a similar weight of the replaced security. Kayne Anderson Rudnick deploys the same level of analysis and due diligence to the replacement security for the Liquidity Overlay Model. In addition, the replacement security is generally held in at least one other strategy managed by Kayne Anderson Rudnick. Performance of a Liquidity Overlay Model will differ from the standard model of the investment strategy as a result of this process.

## Wealth Advisory Services

Kayne Anderson Rudnick Wealth Advisors ("KARWA"), a division of Kayne Anderson Rudnick Investment Management, LLC, provides a full suite of wealth advisory services to the Firm's private clients and associated non-profit organizations. These services are offered in a "modular" fashion, customized to meet the individual needs of each client. The Firm facilitates the use of strategic third-party business partners to provide a customized solution in areas such as estate planning, tax advisory services, risk management services and lending services.

These services include:

**Investment Advisory:** Through an interview process, KARWA assists each client in developing customized long-term goals and objectives for the clients' capital managed by the Firm. KARWA designs a customized portfolio solution for each client that reflects a combination of each client's long-term objectives and the Firm's capital market outlook. Client portfolios are opportunistically rebalanced based on changes in capital markets and/or changes in the clients' life circumstances. The Firm operates within an open architecture platform that is designed to provide a robust set of investment solutions (proprietary and non-proprietary) for our clients.

Kayne Anderson Rudnick participates in a number of arrangements where it receives a model and will exercise investment discretion. It is at Kayne Anderson Rudnick's discretion whether or not and to what extent to implement the models or each recommendation. Kayne Anderson Rudnick utilizes these models primarily in its Wealth Advisors division.

**Financial Planning:** The Firm offers customized financial planning services, including retirement and cash-flow planning, risk management, estate planning and wealth transfer, charitable gifting solutions and tax management. The Firm often utilizes strategic third-party business partners who are experts in each of these complex subjects to provide customized solutions for our clients. While the Firm doesn't as a matter of course conduct ongoing reviews of its clients' financial plans, it will do so when specifically requested to do so by the client. Where the Firm does undertake to conduct an ongoing review of a client's financial plans at a client's request, it will do so with a regularity that is mutually-agreed upon with such client.

**Executive Services:** The Firm provides liquidity solutions for our clients who receive significant equity grants as part of their corporate compensation plan. These services include: 1) tax-managed portfolio transition services, 2) hedging services, and 3) exchange fund solutions.

**Consulting Services for Wealth Advisory Clients:** The Firm provides a full suite of consulting services to non-profit organizations such as endowments and foundations linked to our wealth advisory clients. These services include: 1) investment policy statement design and implementation, 2) strategic asset allocation and portfolio design, 3) investment strategy and manager due diligence and selection, 4) portfolio transition analysis and execution, 5) portfolio monitoring and reporting, 6) consolidated performance reporting, and 7) quarterly reporting including macro-economic and capital markets updates.

## KARWA Wealth Advisory Clients

For each Wealth Advisory client, KARWA creates a portfolio consisting of one or more of the following: individually managed securities managed by Kayne Anderson Rudnick or a designated affiliated or non-affiliated sub-adviser, mutual funds managed by Kayne Anderson Rudnick, mutual funds affiliated with Kayne Anderson Rudnick, non-affiliated mutual funds, exchange-traded funds, limited partnerships and other private fund vehicles, structured notes, concentrated stock hedging service or a combination of the aforementioned.

## Advisory Services – Other

Under certain circumstances, a client of Kayne Anderson Rudnick requests that Kayne Anderson Rudnick trade a security categorized as an “unsupervised asset.” An unsupervised asset is an asset managed by Kayne Anderson Rudnick’s client and not charged an investment advisory fee by Kayne Anderson Rudnick. As an accommodation to the client on a best-efforts basis, Kayne Anderson Rudnick trades effects such transactions in “unsupervised assets” at its clients’ instruction using its trading skills and infrastructure on the client’s behalf and does not charge any fees to the client to do so.

## Types of Investments

Kayne Anderson Rudnick offers investment advice on the following types of instruments: equity securities (common stocks and equivalents) including exchange-listed securities; over-the-counter securities; foreign issues; warrants; corporate-debt securities (other than commercial paper); certificates of deposit; municipal securities; government agencies; mortgage- and asset-backed securities; investment company securities, including traditional mutual-fund shares and exchange-traded funds; and United States government securities. Kayne Anderson Rudnick also offers investment advice, where appropriate, on options contracts on securities, futures contracts on intangibles, interests in partnerships investing in real estate and oil and gas interests, private equity, and exchange funds.

## Item 5 – Fees and Compensation

This section describes Kayne Anderson Rudnick’s basic fee schedules. Fees are negotiable where special circumstances exist, and arrangements with any particular client can vary. Kayne Anderson Rudnick can and does often determine to group multiple accounts of one client relationship together for purposes of calculating the fee, and Kayne Anderson Rudnick can and does determine not to charge a fee to small accounts of a client because of the overall fee the client is paying on the total relationship assets under management with us. Kayne Anderson Rudnick reserves the right to negotiate fees with clients and can charge higher or lower fees than those described herein. Kayne Anderson Rudnick believes that its fees are competitive with those charged by other investment advisers for comparable services;

however, similar services are available from other sources for fees below those charged by Kayne Anderson Rudnick.

The specific manner in which fees are charged is established in a client’s written agreement with Kayne Anderson Rudnick. Clients can elect to be billed directly for fees or to authorize Kayne Anderson Rudnick to directly debit fees from their accounts. Accounts are typically charged a management fee based on the amount of assets under management. Fees are typically payable quarterly in advance based on the fair market value of the account as of the last day of the prior period. Fees can also be payable in arrears based on a three-month average of fair market value of the account or in arrears based on the fair market value of the account on the last day of the period. A limited number of Kayne Anderson Rudnick’s direct accounts are charged a fixed fee.

A client can terminate Kayne Anderson Rudnick’s investment advisory contract upon written notice at any time and receive a pro-rata refund of fees paid in advance by contacting their relationship contact at Kayne Anderson Rudnick. A termination fee may be applicable, as discussed in the specific fee schedule applicable to the account.

Kayne Anderson Rudnick’s fees are exclusive of applicable brokerage commissions, transaction fees and other related costs and expenses, which are incurred by the client. Please refer to Item 12–Brokerage Practices for more information on our brokerage practices. Clients incur certain charges imposed by custodians, brokers, third-party investments and other third parties. Those costs include fees charged by third-party managers, custodial fees, deferred sales charges, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds, ETFs, and alternative investments have their own operating expenses, including compensation paid to their advisers and other service providers, as well as other expenses and fees. This information is disclosed in a fund’s prospectus or offering documents. Third-party professionals that Kayne Anderson Rudnick introduces will have their own separate fee engagement with the client, and those professionals’ services are not included in our fee schedule with the client.

## Advisory Fees – Institutional

### Annual Fee Schedule for Institutional Accounts

Minimum Relationship Size: \$5 million for all strategies with the exception of International Small Cap, Emerging Markets Small Cap and Global Small Cap, which each require a minimum investment of \$25 million.

<b>U.S. Large Cap Equity</b> 0.70% on the first \$10 million 0.55% on the next \$25 million 0.45% on the next \$50 million 0.35% on the balance	<b>U.S. All Cap Sustainable Growth</b> 0.75% on the first \$25 million 0.65% on the next \$25 million 0.55% on the balance	<b>U.S. Mid Cap Equity</b> 0.75% on the first \$25 million 0.65% on the next \$25 million 0.55% on the next \$50 million 0.50% on the balance	<b>U.S. Small-Mid Cap Equity</b> 0.90% on the first \$25 million 0.80% on the next \$25 million 0.75% on the next \$50 million 0.60% on the balance
<b>U.S. Small Cap Equity</b> 1.00% on the first \$25 million 0.80% on the next \$25 million 0.70% on the balance	<b>Small Cap Quality Select</b> 1.25% for all asset amounts	<b>International Small Cap Equity</b> 1.00% on the first \$100 million 0.90% on the balance	<b>International Small-Mid Cap Equity</b> 1.00% on the first \$100 million 0.90% on the balance
<b>Emerging Markets Small Cap Equity</b> 1.25% on the first \$100 million 1.10% on the balance	<b>Global Small Cap</b> 1.00% on the first \$25 million 0.85% on the next \$25 million 0.80% on the balance	<b>Long/Short</b> 1.20% for all asset amounts	<b>KAR Global and U.S. Dividend Yield</b> 0.70% on the first \$10 million 0.55% on the next \$25 million 0.45% on the next \$50 million 0.35% on the balance

## Advisory Fees – Collective Investment Trust

Kayne Anderson Rudnick charges the client an annual management fee ranging from 0.70% to 0.95% (70 basis points to 95 basis points) of the market value under management for advising the collective investment trusts.

## Advisory Fees – Mutual Funds

Kayne Anderson Rudnick receives an annual management fee ranging from 0.23% to 0.60% (23 basis points to 60 basis points) of the market value under management for sub-advising affiliated and non-affiliated mutual funds.

## Advisory Fees – Wrap Programs

Where Kayne Anderson Rudnick serves as investment adviser to clients of wrap sponsors, it contracts separately with each participating client and generally provides the same record-keeping and reporting services as it provides to direct-fee clients. In such cases, Kayne Anderson Rudnick's fee is paid directly by the client or authorized by the client for payment directly from the client's account. Fees range from 0.25% to 1.00% (25 basis points to 100 basis points) per annum of the market value of the client's account.

When Kayne Anderson Rudnick serves as a wrap investment sub-adviser, it contracts with the wrap sponsor for its services rather than the clients of the wrap sponsor. The wrap sponsor serves as a master investment adviser and is responsible for much of the client record keeping and reporting. The management fees payable to Kayne Anderson Rudnick as investment sub-adviser are lower than those paid to Kayne Anderson Rudnick as investment adviser, reflecting that some of the services it would otherwise provide are provided instead by the program sponsor in its capacity as master investment adviser. The fees paid to Kayne Anderson Rudnick by the wrap sponsor in cases where Kayne Anderson Rudnick serves as a wrap investment sub-adviser range from 0.25% to 0.75% (25 basis points to 75 basis points) per annum of the market value of the client's account.

## Advisory Fees – Model Portfolios

Kayne Anderson Rudnick provides investment advisory services, as sub-adviser, to investment advisers that seek specific securities-related advice and recommendations. The advice and recommendations are provided through the development of model portfolios. Kayne Anderson Rudnick receives an annual management fee ranging from 0.25% to 0.50% (25 basis points to 50 basis points) of the market value under management for these model portfolios.



## Advisory Fees – Wealth Advisory Client

### Kayne Anderson Rudnick Wealth Advisors (“KARWA”)– Wealth Advisory Client Fee Schedule

Minimum Relationship Size: \$1 million

Minimum Fee: The minimum annual fee per relationship is \$10,000. Relationships below the annual minimum will be billed \$2,500 on a quarterly basis.

#### Wealth Advisory Fee Schedule

Assets under Advisement	Annual Fee
First \$3 Million	1.00%
Next \$2 Million	0.80%
Next \$5 Million	0.70%
Additional Assets	0.60%

#### Additional Fees

##### Separately Managed Account Fees:

Separately managed accounts (“SMAs”) are accounts with individually managed securities in strategies advised or sub-advised by any of the following parties: (1) Kayne Anderson Rudnick; (2) an affiliate of the Adviser; or (3) an investment adviser who is not affiliated with the Adviser.

For KARWA clients with SMAs as part of their asset allocation, an additional fee of 0.30% (30 basis points) per annum will be assessed on assets in those SMAs, with the exception of SMAs in Kayne Anderson Rudnick’s Small Cap Quality Select investment strategy. SMAs in Kayne Anderson Rudnick’s Small Cap Quality Select investment strategy are charged an additional fee of 1.25% (125 basis points) per annum on those assets. Together, these fees are “SMA Fees.”

These SMA Fees are charged on standard taxable accounts and IRA accounts. For ERISA accounts (not including IRA accounts), these SMA Fees are only charged where the SMAs are advised or sub-advised by an investment adviser who is not affiliated with Kayne Anderson Rudnick.

##### Proprietary and Affiliated Mutual Fund Fees:

Accounts can be and are often invested in the following mutual funds sub-advised by the Adviser:

- Virtus KAR Small-Cap Core Fund
- Virtus KAR Small-Cap Growth Fund
- Virtus KAR Small-Cap Value Fund
- Virtus KAR Mid-Cap Core Fund
- Virtus KAR Global Quality Dividend Fund
- Virtus KAR Small-Cap Growth Series
- Virtus KAR Capital Growth Fund
- Virtus KAR Small-Cap Value Series
- Virtus KAR Mid-Cap Growth Fund
- Virtus KAR International Small-Cap Fund
- Virtus KAR International Small-Mid Cap Fund
- Virtus KAR Capital Growth Series

- Virtus KAR Emerging Markets Small-Cap Fund
- Virtus KAR Small-Mid Cap Core Fund
- Virtus Tactical Allocation Fund (Equity Portion)
- Virtus Strategic Allocation Series (Equity Portion)
- Virtus KAR Long/Short Equity Fund

Where mutual funds sub-advised by Kayne Anderson Rudnick are utilized, Kayne Anderson Rudnick receives an investment advisory fee for its management of the mutual funds, in addition to its wealth advisory service fee, except as described below under “Affiliated Mutual Fund Fees in IRA and ERISA Accounts.” This poses a conflict of interest between Kayne Anderson Rudnick and its clients as Kayne Anderson Rudnick is incentivized to utilize mutual funds sub-advised by the Adviser. The client consents to the use of affiliated mutual funds. The client can revoke in writing the consent of the use of mutual funds advised by the Adviser at any time. Kayne Anderson Rudnick can and frequently does invest a portion of the account in one or more mutual funds sub-advised by or otherwise affiliated with the Adviser.

This conflict of interest means that Kayne Anderson Rudnick and its personnel could be incentivized to utilize SMAs and mutual funds advised or sub-advised by Kayne Anderson Rudnick over SMAs and mutual funds that are not advised or sub-advised by Kayne Anderson Rudnick. These conflicts are mitigated by Kayne Anderson Rudnick’s manager due diligence process, as more fulsomely described in Item 11. Kayne Anderson Rudnick’s Wealth Advisory Investment Committee reviews the due diligence and makes the final decision if a manager should be included on the platform. Finally, Kayne Anderson Rudnick’s wealth advisors are not incentivized by compensation or otherwise to choose Kayne Anderson Rudnick’s investment strategies over other comparable strategies available on our wealth advisory investment platform.

##### Affiliated Mutual Fund Fees in IRA and ERISA Accounts

For IRA and ERISA accounts, no wealth advisory fees are charged on assets invested in mutual funds sub-advised by Kayne Anderson Rudnick or its affiliates, other than fees directly payable to such funds. See the applicable mutual fund prospectus details for the net expense ratios. Fees are in addition to other transaction charges incurred by the funds (e.g., brokerage commissions).

##### Concentrated Stock Hedging Service Fees

Clients investing in only the concentrated stock hedging service (“Hedging Service”) will be charged a 1.00% (100 basis points) service fee per annum. The minimum account size for clients investing only in the Hedging Service is \$1 million. For clients that establish a wealth advisory relationship that includes an allocation to the Hedging Service, the minimum eligibility requirements include assets of \$1 million or above in the wealth advisory relationship plus a minimum investment of \$1 million in the Hedging Service. Clients that establish both a wealth advisory relationship and an allocation to the Hedging Service will be charged 0.75% (75 basis points) per annum on the assets utilizing the Hedging Service. The Hedging Service is not included in the calculation of break points on the Wealth Adviser Service Fee.

##### Concentrated Stock Exchange Fund Service Fee

Clients investing in only the concentrated stock exchange fund (“Exchange Fund”) will be charged a 1.00% (100 basis points) service fee per annum. The minimum account size for clients investing only in the Exchange Fund is \$1 million. For clients that establish a wealth advisory relationship which includes an allocation to Exchange Funds,



the minimum eligibility requirements include assets of \$1 million or above in the wealth advisory relationship plus a minimum investment of \$1 million in the Exchange Fund. Clients that establish both a wealth advisory relationship and an allocation to Exchange Funds will be charged 0.50% (50 basis points) per annum on the assets in the Exchange Fund. The Exchange Fund is not included in the calculation of break points on the Wealth Adviser Service Fee.

## Advisory Fees – Other

Kayne Anderson Rudnick does not charge its clients a fee for buying or selling an “unsupervised asset.” Client account statements normally include the unsupervised asset, but these assets are not included in the account fee calculations or in account performance.

## Item 6 – Performance-Based Fees and Side-By-Side Management

Kayne Anderson Rudnick accepts performance-based fees, which are fees based on a share of capital gains on or on capital appreciation of the assets of a client. Performance-based fee arrangements are only entered into with qualified clients, subject to individual negotiation. Such arrangements will comply with Section 205 of the Investment Advisors Act of 1940, as amended, and the rules thereunder, and all applicable laws and regulations.

The management of performance-based fee accounts side-by-side with other accounts creates a potential conflict of interest for Kayne Anderson Rudnick because of the incentive to favor accounts for which it receives a performance-based fee.” Kayne Anderson Rudnick mitigates this conflict by following well-defined investment procedures intended to ensure that accounts with performance-based fees are not favored in trading over other client accounts. It is Kayne Anderson Rudnick’s policy to inform all of its clients that it performs investment advisory and investment management services for various clients and gives advice and takes action with respect to one client that differs from advice given or the timing or nature of action taken with respect to another client. It is, however, Kayne Anderson Rudnick’s policy not to favor or disfavor consistently or consciously any clients or class of clients in the allocation of investment opportunities, with the result that, to the extent practicable, all investment opportunities are to be allocated among clients over a period of time on a fair and equitable basis.

## Item 7 – Types of Clients

Kayne Anderson Rudnick provides investment services and manages investment advisory accounts for charitable organizations and endowments, professional and religious organizations, corporations and other commercial entities, pension and profit-sharing plans, insurers, banks, family offices, private pooled funds, open-end investment companies, registered investment advisers, individuals, trusts, estates, closed-end investment companies, non-U.S. registered and unregistered pooled investment vehicles, and collective investments trusts.

Kayne Anderson Rudnick serves as investment adviser under certain wrap programs, as investment sub-adviser under other wrap programs, and at times acts in both capacities under different programs sponsored by the same financial-services firm. Kayne Anderson Rudnick provides investment advisory services, as sub-adviser, to investment advisers that seek specific securities-related advice and recommendations. The

advice and recommendations are provided through the development of model portfolios, where applicable.

The minimum size of an institutional account is \$5 million with the exception of International Small Cap, International Small-Mid Cap, Emerging Markets Small Cap and Global Small Cap, which each require a minimum investment of \$25 million. The minimum size of a wealth advisory client account is \$1 million. The minimum amount of assets for wrap-program accounts generally ranges from \$50,000 to \$250,000, depending on the wrap program and the investment strategy of the account. Kayne Anderson Rudnick, at its discretion, accepts or continues to provide services to smaller accounts.

## Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

For proprietary strategies, the goal of the Firm’s research process is to identify companies with business models that provide competitive protections and control over their markets. The research process is designed to develop a deep understanding of the sources of these competitive protections and control. Further, this analysis must lead to a high level of conviction that these protections and controls can be sustained going forward for a security to be considered for investment.

The primary objective of the Firm’s research process is to determine if a business possesses a competitive advantage and, if so, to evaluate its durability. In the course of this effort, Kayne Anderson Rudnick reviews regulatory filings, press releases, and industry data. Kayne Anderson Rudnick conducts comprehensive interviews with management and talks with company personnel, past and present. Kayne Anderson Rudnick speaks with competitors and customers and visits companies’ facilities. This process is intended to identify the unique attributes of a company and evaluate the strength of its competitive barriers. Kayne Anderson Rudnick believes their reputation as large, knowledgeable and long-term shareholders also aids in their efforts to develop business insights.

In evaluating a company’s competitive advantage, Kayne Anderson Rudnick strives to understand the relationship between a business’s qualitative attributes and its financial character. In this regard, Kayne Anderson Rudnick studies how a company’s competitive differentiation translates into its capital efficiency, growth profile, margin history, capital structure, business resiliency, etc.

Further, Kayne Anderson Rudnick assesses the ability of a company’s management team to allocate capital in a sensible, shareholder-friendly manner. This means reinvesting capital in a way that reinforces and cultivates the business’s competitive advantage and distributing excess cash appropriately. Kayne Anderson Rudnick favors companies with high insider ownership because Kayne Anderson Rudnick believes it promotes alignment of interests.

Upon completion of the business and industry research, Kayne Anderson Rudnick evaluates the market price of the company. Simply stated, Kayne Anderson Rudnick estimates the long-term investment return by approximating the long-term discretionary earnings of the business and comparing that to the current price. The acceptable return will vary according to many variables including business predictability, timing and magnitude of shareholder distributions, and Kayne Anderson Rudnick’s confidence level in its assumptions. Kayne Anderson

Rudnick strives to think like private business buyers and seeks to pay a price that will provide an attractive long-term return based on reasonable, well-informed assumptions.

Kayne Anderson Rudnick invests principally in equity securities (e.g., U.S. common stocks, ordinary foreign stocks, GDRs, ADRs, and equivalents) traded on or in a recognized exchange or market. It uses a disciplined investment process to identify high-quality companies available at reasonable prices. This process focuses on consistently growing, highly profitable, low-debt companies with rising cash flows, and also considers strength of management and relative competitive position. Kayne Anderson Rudnick's principal portfolio strategies include large-cap equities and small- to mid-cap equities. Using this disciplined investment process, Kayne Anderson Rudnick also from time to time identifies, considers, and invests in pre-IPO private placement securities offered under an applicable exemption from registration in the U.S. in the accounts of certain qualified clients with advance express approval of such clients. Kayne Anderson Rudnick also offers other, more specialized or concentrated equity strategies.

For wealth advisory clients, Kayne Anderson Rudnick can invest the assets of these clients through sub-advisers and third-party managers. In reviewing investment opportunities, Kayne Anderson Rudnick conducts due diligence and research on the sub-advisers and third-party managers to satisfy itself as to the suitability of the third-party manager and sub-adviser. Kayne Anderson Rudnick also invests in an array of high-quality fixed-income securities, including U.S. treasuries, government agency bonds, mortgage-backed securities, corporate bonds, and municipal bonds (taxable and non-taxable), with a focus on intermediate-term bonds. Kayne Anderson Rudnick offers both taxable and tax-free fixed-income strategies. Additionally, Kayne Anderson Rudnick offers cash management services.

## Risks of Investing

Clients should understand that all investments made pursuant to such strategies involve risk of loss that clients should be prepared to bear, including the potential loss of the entire investment in the client accounts, which clients should be prepared to bear. The investment performance and the success of any investment strategy or particular investment can never be predicted or guaranteed, and the value of a client's investment will fluctuate due to market conditions and other factors. The investment decision made and the actions taken for client accounts will be subject to various market, liquidity, currency, economic, political and other risks, and will not necessarily be profitable and can lose value. Past performance of client accounts is not indicative of future performance.

The strategies described in the Investment Strategies section also are subject to the risks summarized below. However, the following list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment strategy. Prospective clients are encouraged to consult their own financial advisers and legal and tax professionals on an initial and continuous basis in connection with selecting and engaging the services of Kayne Anderson Rudnick for a particular strategy. In addition, due to the dynamic nature of investments and markets, strategies can be subject to additional and different risk factors not discussed herein.

The value of a portfolio can be affected by one or more of the following risks, any of which could cause the portfolio's return or the portfolio's yield to fluctuate:

- **Market Risk:** The value of a portfolio's assets will fluctuate as the stock or bond market fluctuates. The value of your investments can decline, sometimes rapidly and unpredictably, simply because of economic changes or other events that affect large portions of the market.
- **Management Risk:** A portfolio is subject to management risk because it is actively managed by Kayne Anderson Rudnick's investment professionals. Kayne Anderson Rudnick applies its investment techniques and risk analyses in making decisions for your portfolio, but there is no guarantee that these techniques and our judgment will produce the intended results.
- **Foreign (Non-U.S.) Risk:** A portfolio's investments in securities of non-U.S. issuers can involve more risk than those of U.S. issuers. These equities can fluctuate more widely in price and be less liquid due to adverse market, economic, political, regulatory and other factors. Adverse fluctuations in foreign currency values, possible imposition of foreign withholding or other taxes on income payable on the securities, as well as adverse political, social and economic developments, such as political upheaval, acts of terrorism, financial troubles, or natural disasters. Many foreign securities markets are less stable, smaller, less liquid and less regulated than U.S. securities markets, and the costs of trading in those markets is often higher than in U.S. securities markets. There also can be less publicly available information about issuers of foreign securities compared to issuers of U.S. securities and foreign issuers sometimes are not subject to the same accounting, auditing, and financial recordkeeping standards compared to issuers of U.S. securities. Investments in, or exposure to, foreign securities could be affected by restrictions on receiving the investment proceeds from a foreign country, confiscatory foreign tax laws, and potential difficulties in enforcing contractual obligations. Transactions sometimes are subject to less efficient settlement practices, including extended clearance and settlement periods.
- **Small- and Mid-Capitalization Risk:** Investments in small- and mid-capitalization companies are typically more volatile than investments in large-cap companies. Investments in small-cap companies can have additional risks because these companies have limited product lines, markets or financial resources. Investing in smaller companies, some of which can be newer companies or start-ups, generally involves greater risks than investing in larger, more established ones. The securities of companies with smaller market capitalizations often are less widely held and trade less frequently and in lesser quantities, and their market prices often fluctuate more, than the securities of companies with larger market capitalizations. In addition, such securities could be subject to more abrupt or erratic price movements and securities of such issuers can lack sufficient market liquidity to enable the Adviser to effect sales at an advantageous time or without a substantial drop in price. Small-capitalization companies often have limited product lines, narrower markets and more limited managerial and financial resources, or can depend on the expertise of a few people, than larger, more established companies. As a result, their performance can be more volatile and they face greater risk of business failure, which could increase the volatility of a portfolio holding them. In addition to the risks discussed herein for small-capitalization companies, mid-capitalization companies can also have limited product lines, markets or financial resources or can depend on the expertise of a few people and can be subject to more abrupt or erratic market movements than securities of larger, more established companies or the market.

averages in general.

- **Liquidity Risk:** Investments in securities that are difficult to purchase or sell (illiquid or thinly-traded securities) can reduce returns if we are unable to sell the securities at an advantageous time or price or achieve a desired level of exposure. In times of market volatility, it is possible to experience elevated transaction volumes and liquidity, but certain securities or classes of securities can still become illiquid or less liquid despite this. Government or regulatory actions can also decrease market liquidity for certain securities. Small-capitalization companies and companies domiciled in emerging markets can in certain market environments pose greater liquidity and price volatility risks. Certain securities that were liquid when purchased can later become illiquid or less liquid, particularly in times of overall economic distress. Kayne Anderson Rudnick from time to time can and does own in the aggregate, on behalf of investment advisory clients, a relatively large portion of the shares outstanding of certain companies held across one or more of its investment strategies, in particular in small- and mid-capitalization companies. When this is the case, such positions' liquidity risk profile could be amplified in the event an unexpected event occurs and one of these positions needs to be partially or fully sold in a market environment experiencing depressed trading volumes. In addition, although the fixed-income securities markets have grown significantly in the last few decades, regulations and business practices have led some financial intermediaries to curtail their capacity to engage in trading (i.e., "market making") activities for certain debt securities. As a result, dealer inventories of fixed-income securities, which provide an indication of the ability of financial intermediaries to make markets in fixed-income securities, are at or near historic lows relative to market size. Because market makers help stabilize the market through their financial intermediary services, further reductions in dealer inventories could have the potential to decrease liquidity and increase volatility in the fixed-income securities markets.
- **Emerging Market Investing Risk:** This is the risk that prices of emerging-markets securities will be more volatile or more greatly affected by negative conditions than those of their counterparts in more-established foreign markets. Investments in, or exposure to, securities that are tied economically to emerging markets involve greater risk from economic and political systems that typically are less developed, and likely to be less stable, than those in more advanced economies. Emerging market and less developed countries often have economies that are predominantly based on only a few industries or dependent on revenues from particular commodities. There can also be government policies that restrict investment by foreigners, greater government influence over the private sector than in the U.S., and a higher risk of a government taking private property in emerging and less-developed countries. Investments in, or exposure to, emerging market countries and/or their securities markets can present market, credit, currency, liquidity, legal, political technical and other risks different from, or greater than the risks of investing in developed countries.
- **Market Direction Risk:** Portfolios in our long/short strategy hold both long and short positions. An investment in a long/short portfolio will involve market risks associated with types of investment decisions that are different from those made for a typical "long-only" portfolio. The portfolio's results could suffer when there is a general market advance and the portfolio holds significant "short" positions or when there is a general market decline and the portfolio holds significant "long" positions. The markets can have considerable volatility from day to day and even in intra-day trading (applicable only to Long/Short

Strategy).

- **Concentration/Diversification Risk:** An account's concentration of investments in securities of a limited number of issuers, industries, sectors, countries, states or regions subjects an account to conditions that can adversely impact the area of concentration. Moreover, concentration of investments of issuers located in a particular state subjects an account to government policies within that state. Similarly, a concentrated account can invest a large portion of its assets in a fewer number of issuers than an account with a larger number of positions. If a relatively high percentage of an account's assets are invested in the securities of a limited number of issuers, the account can be more susceptible to any single economic, political or regulatory occurrence than a more diversified portfolio. It can and sometimes does take additional time to sell all or part of a concentrated investment in a particular security, and consequently, concentrating portfolio investments could also limit the ability of the Fund to take advantage of other investment opportunities.
- **Currency Rate Risk:** Foreign securities in which an account invests generally trade in currencies other than the U.S. dollar. As such, changes in currency exchange rates will affect the value of an account, the value of dividends and interest earned, and gains and losses realized on the sale of securities. Because the value of an account's shares is calculated in U.S. dollars, it is possible for the account to lose money by investing in a foreign security if the local currency of a foreign market depreciates against the U.S. dollar, even if the local-currency value of the account's holdings goes up. Generally, a strong U.S. dollar relative to other currencies will adversely affect the value of the account's holdings in foreign securities.
- **Business Continuity Risk:** Kayne Anderson Rudnick has adopted a business continuation strategy to maintain critical functions in the event of a partial or total building outage affecting our offices or a technical problem affecting applications, data centers or networks. The recovery strategies are designed to limit the impact on clients from any business interruption or disaster. Nevertheless, our ability to conduct business can be curtailed by a disruption in the infrastructure that supports our operations.
- **Cybersecurity Risk:** In addition to the risks associated with the value of investments, there are various operational, systems, information security and related risks involved in investing, including but not limited to "cybersecurity" risk. A breach in cybersecurity refers to both intentional and unintentional events that can cause an account to lose proprietary information. Such events include misappropriating sensitive information, access to digital systems to obtain client and financial information, corrupting data or causing operational disruption. Similar adverse consequences could result from cybersecurity incidents affecting counterparties with which we engage in transactions, third-party service providers (e.g. a client account's custodian), governmental and other regulatory authorities, exchange and other financial market operators, banks, broker dealers and other financial institutions, and other parties.
- **Extraordinary Events and Market Volatility Risk:** Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could significantly impact the global securities markets, including hampering the ability to invest in a strategy's assets as intended. Further, such events can negatively affect general economic fortunes, including sales, profits and production, and can lead to depressed securities prices and problems with trading facilities and infrastructure.

- **Municipal Securities Risk:** Litigation, legislation or other political events, local business or economic conditions, or bankruptcy of the issuer could have a significant effect on the issuer's ability to make payments of principal and/or interest or otherwise affect the value of such securities. The value of these securities could decline because of a market perception that the issuer might not make payments on time.
- **Credit risk:** Debt securities are subject to the risk that an issuer will fail to make timely payments of interest or principal or go bankrupt, or that the value of the securities will decline because of a market perception that the issuer might not make payments on time. The lower the rating of a debt security, the higher its credit risk.
- **Interest Rate Risk:** Debt securities will generally lose value if interest rates increase. U.S. government securities can exhibit price movements resulting from changes in interest rates. Interest rate risk is generally higher for investments with longer maturities or durations. Treasury Inflation Protected securities ("TIPS") can also exhibit price movements as a result of changing inflation expectations and seasonal inflation patterns.
- **Privately placed securities risk:** Generally, privately placed securities are illiquid and are subject to resale restrictions. Typically, the securities are sold as an offering exempt from regulation with the U.S. Securities and Exchange Commission. Investments in these securities usually will decrease a Fund's liquidity level to the extent that the owner of such investment could be unable to sell or transfer these securities due to restrictions on transfers or on the ability to find buyers interested in purchasing the securities. The illiquid nature of the market for privately placed securities, as well as the lack of publicly available information regarding these securities, might also adversely affect the ability to fair value such securities at certain times and could make it difficult for the securities to be sold.
- **Rule 144A securities risk:** Rule 144A securities are securities offered as exempt from registration with the SEC, but are often treated as liquid securities because there is a market for such securities. Rule 144A securities often have an active trading market, but carry the risk that the active trading market doesn't continue. To the extent institutional buyers become, for a time, uninterested in purchasing Rule 144A securities, investing in such securities could adversely impact the liquidity profile of owning such as security.
- **Short sales risk:** A short sale is effected by selling a security that an account does not own. If the price of the security sold short increases, an account would incur a loss; conversely, if the price declines, an account would realize a gain. Short sales involve greater reliance on the investment manager's ability to accurately anticipate the future value of an instrument, potentially higher transaction and other costs, and imperfect correlation between the actual and desired level of exposure. Because an account's potential loss on a short position arises from increases in the value of the asset sold short, the extent of such loss, like the price of the asset sold short, is theoretically unlimited. An account holding both long and short positions could have long positions decline in value at the same time that the value of short positions increases, thereby increasing the account's overall potential for loss to a greater extent than would occur without the use of shorting. Short positions typically involve increased liquidity risk and transaction costs, and the risk that the third party to the short sale fails to honor its contract terms.
- **Sub-Adviser and Third-Party Managers Risk:** The success of an account's investment through sub-advisers and/or third-party managers in general is subject to a variety of risks, including those related to (i) the quality of the management of the sub-

adviser and/or third-party manager; (ii) the quality of the management of the operating companies and the ability of such management to develop and maintain successful business enterprises; and (iii) the ability of a sub-adviser and/or third-party manager to successfully source investment opportunities, operate and manage their investments.

- **Asset Allocation Risk:** The asset classes in which a client account seeks investment exposure can perform differently from one another at any given time (as well as over the long term). As such, a client account will be affected by its allocation among equity securities, debt securities, alternatives and cash-equivalent securities.

## Investment Strategies

### Small Cap Quality Value:

This strategy pursues long-term capital appreciation in the small-cap sector while seeking to provide a lower risk profile than the index over a complete market cycle. The strategy invests in a select group of small-cap value companies believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management and low financial risk, despite their discounted valuations.

### Small Cap Core:

This strategy pursues long-term capital appreciation in the small-cap sector while seeking to provide a lower risk profile than the index over a complete market cycle. The strategy invests in a select group of small-cap companies believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management, low financial risk and an ability to grow over market cycles, despite their discounted valuations.

### Small Cap Sustainable Growth:

This strategy pursues long-term capital appreciation in the small-cap sector while seeking to provide a comparable risk profile than the index over a complete market cycle. The strategy invests in a select group of small-cap growth companies believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management, low financial risk and an ability to grow over market cycles, despite their discounted valuations.

### Small Cap Quality Select:

This highly concentrated portfolio strategy pursues long-term capital appreciation in the small-cap sector. The strategy invests in a select group of small-cap companies believed to be undervalued. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management, low financial risk and an ability to grow over market cycles, despite their discounted valuations.

### Small Cap Focus:

This strategy pursues long-term capital appreciation in the small-cap sector. The strategy invests in a select group of small-cap companies believed to be undervalued. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a



competitive advantage, strong management, low financial risk and an ability to grow over market cycles, despite their discounted valuations.

#### **Small-Mid Cap Core:**

This strategy pursues long-term capital appreciation in the small-to-mid-cap sector while seeking to provide a lower risk profile than the index over a complete market cycle. The strategy invests in a select group of small- and mid-cap companies believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management, low financial risk and an ability to grow over market cycles, despite their discounted valuations.

#### **Small-Mid Cap Quality Value:**

This strategy pursues long-term capital appreciation in the small-to-mid-cap sector while seeking to provide a lower risk profile than the index over a complete market cycle. The strategy invests in a select group of small- and mid-cap value companies believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management and low financial risk, despite their discounted valuations.

#### **Small-Mid Cap Sustainable Growth**

This strategy pursues long-term capital appreciation in the small-to-mid-cap sector, while seeking to provide a lower risk profile than the index over a complete market cycle. The strategy invests in a select group of small- and mid-cap companies with business models that possess competitive advantages generating sustainable growth over the long-term. In addition to their durable competitive advantages, these businesses are believed to have strong management teams, and low financial risk, and we seek to purchase these businesses at reasonable valuations.

#### **Mid Cap Core:**

This strategy pursues long-term capital appreciation in the mid-cap sector while seeking to provide a lower risk profile than the index over a complete market cycle. The strategy invests in a select group of mid-cap companies believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management, low financial risk and an ability to grow over market cycles, despite their discounted valuations.

#### **Mid Cap Sustainable Growth:**

This strategy pursues long-term capital appreciation in the mid-cap growth sector. The strategy invests in a select group of mid-cap growth companies with business models that possess competitive advantages and characteristics that create sustainable growth potential. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management and low financial risk.

#### **Large Cap Quality Value:**

This strategy invests in a select group of large-cap value companies believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management and low financial risk, despite their discounted valuations.

#### **Large Cap Sustainable Growth:**

This strategy pursues long-term capital appreciation in the large-cap growth sector. The strategy invests in a select group of large-cap growth companies with business models that possess competitive advantages and characteristics that create sustainable growth potential. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management and low financial risk.

#### **U.S. Dividend Yield**

This strategy pursues an above-average dividend yield by investing in a select group of high-quality businesses. The strategy invests in companies primarily located in the United States. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management and low financial risk, as well as an ability to generate strong free cash flow, with a significant portion of that cash flow returned to shareholders via dividends.

#### **International Small Cap:**

This strategy pursues long-term capital appreciation in the international small-cap sector while seeking to provide a lower risk profile than the index over a complete market cycle. The strategy invests in a select group of small-cap companies located globally excluding the United States that are believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management and low financial risk that can grow over market cycles despite their discounted valuations.

#### **International Small-Mid Cap:**

This strategy pursues long-term capital appreciation in the international small-to-mid-cap sector while seeking to provide a lower risk profile than the index over a complete market cycle. The strategy invests in a select group of small- and mid-cap companies located globally excluding the United States that are believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management and low financial risk that can grow over market cycles despite their discounted valuations.

#### **Emerging Markets Small Cap:**

This strategy pursues long-term capital appreciation in the emerging-markets small-cap sector while seeking to provide a lower risk profile than the index over a complete market cycle. The strategy invests in a select group of small-cap companies located in emerging markets, as defined by MSCI, that are believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management and low financial risk that can grow over market cycles despite their discounted valuations.

#### **Global Small Cap:**

This strategy pursues long-term capital appreciation in the global small-cap sector while seeking to provide a lower risk profile than the index over a complete market cycle. The strategy invests in a select group of small-cap companies located globally, including the U.S., that are believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies that Kayne Anderson

Rudnick believes to have a competitive advantage, strong management and low financial risk that can grow over market cycles.

## Long/Short Equity:

This strategy pursues long-term capital appreciation across market capitalizations while seeking to provide principal preservation by reducing exposure to general equity-market risk. The strategy invests in a select group of high-quality large-, mid- and small-cap companies at reasonable business valuations (the "Long Portfolio"). The Long Portfolio investments represent companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management, low financial risk and an ability to grow over market cycles. This strategy will also establish short positions in low-quality companies (the "Short Portfolio"). The Short Portfolio investments represent companies that Kayne Anderson Rudnick believes lack a competitive advantage and have deteriorating financial performance and/or high financial risk.

## All Cap Sustainable Growth:

This strategy pursues long-term capital appreciation across market capitalizations. The strategy invests in large-, mid-, and small-cap growth companies with business models that possess competitive advantages and characteristics that create sustainable growth potential. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management and low financial risk.

## Global Dividend Yield:

This strategy pursues an above-average dividend yield by investing in a select group of high-quality businesses. The strategy invests in companies located globally, including the United States. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management and low financial risk, as well as an ability to generate strong free cash flow, with a significant portion of that cash flow returned to shareholders via dividends.

## California Municipal:

This strategy seeks current income free from federal and state income taxes by investing in municipal bonds issued in the state of California. The management team focuses on high-quality California tax-exempt municipal bonds, gauging the value of a security by issue type, credit quality and bond structure.

## National Municipal:

This strategy seeks current income free from federal taxes by investing in municipal bonds issued in the U.S. The management team focuses on high-quality U.S. tax-exempt municipal bonds, gauging the value of a security by issue type, credit quality and bond structure.

## Municipal:

This strategy seeks current income free from federal state income taxes by investing in municipal bonds issued in various states. The management team focuses on high-quality tax-exempt municipal bonds, gauging the value of a security by issue type, credit quality and bond structure.

## Intermediate Total Return:

This strategy seeks high total return by investing in a diversified portfolio of primarily intermediate, high-quality bonds, including corporate and

mortgage- and asset-backed securities. The strategy employs a value-oriented approach seeking to capitalize on individual issues and sectors that appear to offer the best value. It also seeks to add value through interest-rate anticipation.

## Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Kayne Anderson Rudnick or the integrity of Kayne Anderson Rudnick's management. On July 16, 2018, Kayne Anderson Rudnick received notice from the Financial Supervisory Authority of Norway ("Finanstilsynet") that Finanstilsynet had levied a penalty against Kayne Anderson Rudnick equivalent to approximately 18,500 USD based on a finding that two notifications of large share ownership in a Norwegian company were not made in a timely manner under Norwegian law.

## Item 10 – Other Financial Industry Activities and Affiliations

Kayne Anderson Rudnick has material relationships with its affiliates, as described below.

Kayne Anderson Rudnick is a wholly owned subsidiary of Virtus Partners, Inc. ("VPI"), which is a wholly owned subsidiary of Virtus Investment Partners, Inc. ("Virtus" or "VRTS"). Virtus is a publicly traded company operating a multi-manager asset management business (NASDAQ: VRTS). Certain officers and directors of Virtus serve as officers of Virtus's indirect, wholly owned affiliates, including Kayne Anderson Rudnick.

Kayne Anderson Rudnick has a number of affiliates that are registered investment advisers, which are:

- Ceredex Value Advisors LLC
- Duff & Phelps Investment Management Co.
- Newfleet Asset Management, LLC
- Rampart Investment Management Company, LLC
- Seix CLO Management LLC
- Seix Investment Advisors LLC
- Silvant Capital Management LLC
- Sustainable Growth Advisers, LP
- Virtus Alternative Investment Advisers, Inc.
- Virtus ETF Advisers LLC
- Virtus Fund Advisers, LLC
- Virtus Investment Advisers, Inc.

Kayne Anderson Rudnick has been engaged by certain of its affiliated investment advisers to provide sub-advisory services with respect to certain open-end and/or closed-end funds managed by the affiliated investment advisers (such funds, "Virtus Funds"), and additional relationships of that nature will likely be entered into by Kayne Anderson Rudnick in the future. Kayne Anderson Rudnick's compensation for such arrangements is typically structured as a percentage of the overall management fee paid by the fund to the hiring affiliated investment adviser.

Kayne Anderson Rudnick is not registered, and does not have an application pending to register, as a broker-dealer. However, an affiliate of Kayne Anderson Rudnick, VP Distributors, LLC ("VPD"), is a



registered broker-dealer. VPD is a limited purpose broker-dealer that serves as principal underwriter and distributor of certain open-end mutual funds and ETFs managed by Kayne Anderson Rudnick and/or its affiliated investment advisers. Certain Kayne Anderson Rudnick personnel whose job responsibilities either require or are appropriate for registering as broker-dealer representatives are registered representatives of VPD.

Certain employees of VPD promote the services of Kayne Anderson Rudnick as well as the products managed by Kayne Anderson Rudnick. When Kayne Anderson Rudnick pays a fee to VPD for the efforts of VPD's employees to promote Kayne Anderson Rudnick's services, VPD is considered a solicitor for Kayne Anderson Rudnick as discussed further in Item 14, below.

Certain employees of another affiliate of Kayne Anderson Rudnick, Virtus Investment Partners International, Ltd. ("Virtus International"), also promote the services of Kayne Anderson Rudnick as well as the products managed by Kayne Anderson Rudnick. Virtus International is an indirect wholly owned subsidiary of Virtus headquartered in London, England, and (along with its employees) is an Appointed Representative of Mirabella Advisers LLP (FRN 606792), which is authorized and regulated by the Financial Conduct Authority, and which is not affiliated with Kayne Anderson Rudnick. When Kayne Anderson Rudnick pays a fee to Virtus International for the efforts of Virtus International's employees to promote Kayne Anderson Rudnick's services, Virtus International is considered a solicitor for Kayne Anderson Rudnick as discussed further in Item 14, below.

Kayne Anderson Rudnick is not registered, and does not have an application pending to register, as a futures commission merchant, a commodity pool operator, or a commodity trading advisor. Certain of Kayne Anderson Rudnick's affiliated investment advisers are registered as commodity pool operators or commodity trading advisors in connection with their management activities.

In providing services to its clients, Kayne Anderson Rudnick utilizes personnel or services of one or more of its affiliated investment advisers or other corporate affiliates, and Kayne Anderson Rudnick's affiliated investment advisers could potentially use personnel or services of Kayne Anderson Rudnick. Services provided in these arrangements include, among other things, investment advice, portfolio execution and trading, back office processing, accounting, reporting, and client servicing. These services are provided through arrangements that take a variety of forms, including dual employee, participating affiliate, delegation arrangement, sub-advisory, consulting, or other servicing agreements. In each case, the personnel of the entity providing services are required to follow policies and procedures designed to ensure that the applicable clients' accounts are handled appropriately and the in the best interests of the clients. When Kayne Anderson Rudnick uses the personnel or services of an affiliate to provide services to Kayne Anderson Rudnick's clients, Kayne Anderson Rudnick remains responsible for the account from a legal and contractual perspective. Similarly, if an affiliated investment adviser uses the personnel or services of Kayne Anderson Rudnick to provide services to such affiliated investment adviser's clients, the affiliated investment adviser remains responsible for the account from a legal and contractual perspective. No additional fees are charged to the clients for such services except as otherwise set forth in the client's applicable investment management or other agreement. For certain existing wealth advisory clients, Kayne Anderson Rudnick from time-to-time

utilizes the services of its affiliate, Newfleet Asset Management, Inc. ("Newfleet"), a registered investment adviser and an affiliate of Kayne Anderson Rudnick.

## Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

### Code of Ethics

To fully protect the interest of our clients, employees and affiliates, any employee found to engage in improper or unlawful activity faces administrative and legal action. Everyone has a responsibility to ensure that employees are conducting business professionally and are complying with the procedures and policies governing our collective responsibility. Anyone aware of employees engaged in wrongdoing or improper conduct must immediately report such activity to their supervisor and compliance officer. Failure to report wrongdoing can result in additional action being taken against that individual.

Kayne Anderson Rudnick has adopted the Virtus Code of Conduct and Code of Ethics (the "Codes") in accordance with Rule 204A-1 of the Investment Advisers Act of 1940, as amended and Rule 17j-1 of the Investment Company Act of 1940, as amended. The Codes have been reasonably designed to prevent and detect possible conflicts of interest with client trades. Compliance with the Codes is a condition of employment. All of our employees must acknowledge their terms at least annually or as amended. Any employee found to have engaged in improper or unlawful activity faces appropriate disciplinary action. Each employee is responsible for ensuring that they and those they manage conduct business professionally and comply with our firm's policies and procedures. Employees must immediately report (to their supervisor, a compliance officer or corporate legal counsel) their knowledge any wrongdoing or improper conduct. Failure to do so could result in disciplinary action being taken against that individual. Our reporting procedures are supported by a telephone number and similar on-line reporting technology available 24-hours/day to any employee to confidentially report, or request assistance concerning possible violations of the Codes and other firm policies. This technology and reporting platform is administered by an independent, third-party.

Our officers and employees are encouraged to invest in shares of investment products that we and/or our affiliates advise. Subject to limitations described herein and set forth by our Codes, our directors, officers, and/or associated personnel can and do buy, hold, and sell the same investments for their own accounts as are held or to be held or sold for a client account and they can and do engage in the following:

- Recommend that clients buy or sell securities or investment products in which we or a related person have some financial interest; and/or
- Buy or sell securities or investment products that our firm and/or our directors, officers, associated personnel or a related person recommends to our clients.

Our Codes are designed to prevent and detect conflicts of interest in regard to the above.

None of our directors, officers, Access or Advisory persons can buy or sell any security or any option to buy or sell such security, such that they hold or acquire any direct or indirect beneficial ownership as a result of the transaction, if they know at the time of such transaction that such a security or option is being bought, sold, or considered for purchase or sale for a client account, unless one or more of the following conditions exist:

- They have no influence or control over the transaction from which they will acquire a beneficial interest, except where they are a portfolio manager on the strategy in which they also have a separately managed account, at which time the portfolio manager's personal account within the Firm's strategy is treated the same as the other accounts within the strategy, trading within KAR's trade rotation policies and procedures and receiving their pro rata portion of executions in adherence with the Firm's trade allocation policies and procedures;
- The transaction is non-volitional on their part or the client's;
- The transaction is a purchase under an automatic dividend reinvestment plan or pursuant to the exercise of rights issues, pro-rata to them and other holders of the same class of the issuer's securities; or
- They have obtained, in advance, approval from someone authorized to grant such approval when circumstances indicate no reasonable likelihood of harm to the client or violation of applicable laws and regulations.

Kayne Anderson Rudnick deems all of its employees to be Access Persons under the Codes.

The following highlights some of the provisions of the Virtus Code of Conduct:

## Virtus Code of Conduct

The Virtus Code of Conduct directs our employees' conduct in the following areas:

- Compliance with Applicable Laws,
- Rules and Regulations
- Insider Trading
- Conflicts of Interest and Related Party Transactions
- Corporate Opportunities
- Fair Dealing
- Protection and Proper Use of Company Assets
- Confidentiality
- Recordkeeping
- Interaction with Government Officials and Lobbying
- Contract Review and Execution
- Company Disclosures and Public Communications
- Information Protection Policies
- Human Resource Policies
- Use of Social Media
- Intellectual Property
- Designation of Compliance Officers
- Seeking Guidance About Requirements of the Code
- Reporting Violations

## • Waivers, Discipline and Penalties

A complete Virtus Code of Conduct is available to any client or prospective client by sending a written request to Kayne Anderson Rudnick Investment Management, Attn: Chief Compliance Officer, 1800 Avenue of the Stars, 2nd Floor, Los Angeles, California 90067, or by contacting Compliance at 1-800-231-7414 or via email at [Compliance@kayne.com](mailto:Compliance@kayne.com).

## Kayne Anderson Rudnick Code of Ethics for Personal Trading

The following highlights some of the provisions of the Kayne Anderson Rudnick Code of Ethics for Personal Trading, which are reasonably designed to mitigate conflicts of interest posed by our employees and other related persons investing in the same securities or related securities (e.g., warrants, options, or futures) at or about the same time or otherwise that Kayne Anderson Rudnick is recommending to clients or that we are buying and selling for client accounts:

- Pre-clearance is required for all non-exempt transactions with respect to which an employee is beneficial owner in order to prevent the employee from buying or selling or within the applicable restriction period.
- 30-day holding period for covered securities.
- Brokerage provision of duplicate copies of brokerage statements and confirmations to our Compliance Department.
- Employee provision of Initial Holding Reports, Quarterly Transaction Reports and Annual Certification and Holding Reports, which our Compliance Department reviews for trading activity.
- Requirement that personal transactions be consistent with the Code of Ethics in a manner that avoids any actual or potential conflict of interest.
- Any covered employee not in observance of the above can be subject to discipline.

Kayne Anderson Rudnick or a related person can recommend that clients buy or sell securities or investment products in which Kayne Anderson Rudnick or a related person has a financial interest. Likewise, Kayne Anderson Rudnick or a related person can buy or sell securities that Kayne Anderson Rudnick also recommends to clients.

Our officers and employees are encouraged to invest in shares of Virtus Funds that we advise.

We ensure that the investment management and overall business of the Firm comply with both our and Virtus policies, as well as with applicable U.S. federal and state securities laws and regulations.

In addition to the above, our policies set limitations on and require reporting of gifts, entertainment, business meals, sponsorships, business building and charitable donations made on clients' or prospective clients' behalf, whether given or received. Generally, our employees are prohibited from accepting or providing gifts or other gratuities from clients or individuals seeking to conduct business with us in excess of \$100. Employees, under certain circumstances, can be granted permission to serve as directors, trustees or officers of outside organizations. Employees must receive approval from the chief

compliance officer and the chief operating officer, and such approval is based on a determination that such position does not pose a potential or actual conflict of interest with our clients. Such determinations are reviewed on at least an annual basis.

We have adopted the Insider Trading Policy and Procedures designed to mitigate the risks of our firm and its employees misusing and misappropriating any material non-public information that they become aware of, either on behalf of our clients or for their own benefit. Personnel are not to divulge or act upon any material, non-public information, as defined under relevant securities laws and in our Insider Trading Policy and Procedures. The policy applies to each of our Supervised, Access and Advisory Persons and extends to activities both within and outside their duties to our firm, including for an employee's personal account.

A complete copy of Kayne Anderson Rudnick's current Code of Ethics is available to any client or prospective client by sending a written request to Kayne Anderson Rudnick Investment Management, Attn: Compliance, 1800 Avenue of the Stars, 2nd Floor, Los Angeles, California 90067, or by contacting Compliance at 800.231.7414 or [compliance@kayne.com](mailto:compliance@kayne.com).

## Participation or Interest in Client Transactions

Kayne Anderson Rudnick recommends investments in certain Virtus Mutual Funds. Kayne Anderson Rudnick serves as an investment sub-advisor to various Virtus Mutual Funds ("Funds") and is paid management fees by these Funds. Under certain circumstances, Kayne Anderson Rudnick charges separate advisory fees on client assets, which are invested in the Funds sub-advised by Kayne Anderson Rudnick. The management fee rates paid to Kayne Anderson Rudnick by such Funds can be different from the management fees that are charged on separately managed assets in the same or similar investment strategies.

For client accounts established under certain previous fee schedules, but not our current fee schedules, Kayne Anderson Rudnick receives an ongoing payment from VP Distributors, LLC ("VPD") for its Wealth Advisory Group's client investments in Virtus mutual funds both managed by Kayne Anderson Rudnick as a sub-advisor to the funds, as well as Virtus mutual funds affiliated with Kayne Anderson Rudnick. This payment ranges from 30 to 45 basis points. This payment creates a conflict of interest because the Wealth Advisory Client Representatives could favor affiliated mutual funds over non-affiliated mutual funds because of the payments Kayne Anderson Rudnick receives from VPD. This conflict of interest is mitigated by Kayne Anderson Rudnick's manager due diligence process. All products on the wealth advisory open architecture platform are put through a rigorous quantitative and qualitative process. The Director of Manager Research and Investment Solutions performs an in-depth due diligence on each prospective manager, which includes affiliated funds of Kayne Anderson Rudnick. This review process includes a comprehensive due diligence questionnaire, in-depth interviews, and/or onsite visits to develop a qualitative assessment of the manager's skill and discipline. Further, Kayne Anderson Rudnick's Wealth Advisory Investment Committee reviews the due diligence and makes the final decision if a manager should be included on the platform.

For client accounts established under our current fee schedule, Kayne Anderson Rudnick does not receive a payment from VP Distributors,

LLC for its Wealth Advisory Group's client investments in either Virtus mutual funds managed by Kayne Anderson Rudnick as a sub-advisor to the Funds, or Virtus mutual funds affiliated with Kayne Anderson Rudnick.

Employees of Kayne Anderson Rudnick have and are able to have separately managed accounts in strategies that Kayne Anderson Rudnick advises provided that any such accounts strictly follow the model account for such strategy and such officers and employees themselves have no direct or indirect ability to influence or control such accounts other than as part of investment decisions made for the entire investment strategy and model account for such strategy. Kayne Anderson Rudnick manages these investment accounts for its employees and employees of its affiliates for no fee.

Employees from time to time make political contributions. The inappropriate influencing of a prospect or client in an effort to gain an unfair advantage in acquiring or retaining clients creates a conflict of interest. Kayne Anderson Rudnick has established procedures to comply, at a minimum, with federal law. In addition, employees subject to federal law are required to certify on a quarterly basis that they have reported all applicable monetary political contributions and that the contributions met certain standards.

## Item 12 – Brokerage Practices

Kayne Anderson Rudnick uses its best efforts to obtain the most favorable terms under the circumstances of each trade and, in doing so, considers best execution to encompass the most favorable overall cost or proceeds that can be reasonably obtained for a transaction under current circumstances surrounding the trade. Kayne Anderson Rudnick generally determines the broker through whom securities transactions are to be affected. In selecting brokers for a portfolio transaction, Kayne Anderson Rudnick considers, without limitation, the overall direct net economic results to an account. When executing client transactions with unaffiliated broker-dealers, Kayne Anderson Rudnick allocates client transactions to such broker-dealers for execution, in its good-faith judgment and in the best interest of the client, taking into consideration available prices and brokerage commission rates, as well as other relevant factors. Relevant factors include: (1) overall execution quality (general past performance under similar trading circumstances), (2) liquidity of the name and the liquidity that the broker is expected to be able to provide, (3) the broker's ability to minimize information leakage of Kayne Anderson Rudnick's orders to the marketplace, (4) responsiveness and promptness in providing executions and ability to maintain anonymity, (5) difficulty of the trade, (6) capital commitment of the broker to facilitate timely completion of the trade, (7) opportunity for price improvement, (8) commission rates, and (9) clearance and settlement capabilities of the broker.

Clients can also establish a bank custodial account and authorize Kayne Anderson Rudnick to use any broker-dealer with whom Kayne Anderson Rudnick has negotiated institutional-level commission rates. These bank custodian accounts can provide access to other bank services that are of value to the client. In addition, these discretionary accounts provide Kayne Anderson Rudnick with a level of flexibility that benefits the client's ability to participate in block trades. As a result, bank custodial arrangements are usually more attractive to larger, institutional accounts. However, clients should consider the custodial fees charged by a bank custodian in evaluating this alternative, as the custodial fees charged to smaller account sizes could be larger than the

benefit received by the account by having the flexibility for Kayne Anderson Rudnick to be able to execute transactions away from such custodial account's associated broker-dealer.

In situations where a client has directed Kayne Anderson Rudnick to use particular broker-dealers, or where certain trades need to be handled separately from other orders ("Directed Accounts"), these trades could be delayed until the completion of other orders rather than being executed simultaneously. This is done to avoid multiple orders from Kayne Anderson Rudnick competing for execution in the marketplace at the same time. It also avoids any excessive market impact that could result if the market thought multiple broker-dealers were working orders. Directed Accounts that do not allow Kayne Anderson Rudnick to trade away from their custodial bank's associated broker-dealer and those that are not able to participate in block trades are placed in a separate rotation so as to not disadvantage all other accounts.

Rotation is an important principle in assuring all accounts are treated equitably over time. Kayne Anderson Rudnick has designed its rotation process to provide all clients with fair access to trading. Kayne Anderson Rudnick maintains trading groups for our clients' accounts to facilitate orderly execution of trades. The trading groups are generally defined by the level of trading discretion afforded to Kayne Anderson Rudnick.

With respect to many of its discretionary client accounts, Kayne Anderson Rudnick has full authority to determine the broker-dealers with whom transactions for the discretionary client accounts are executed. Kayne Anderson Rudnick selects such broker-dealers for execution and determines the commission rates payable to them in the manner described above.

## Directed Brokerage

Kayne Anderson Rudnick accepts direction from clients regarding the brokers to be used for such clients' accounts. Some clients have existing arrangements permitting them to offset certain administration, accounting, custody, consultant or other fees in relation to the amount of brokerage transactions handled by a specific broker. At the same time, Kayne Anderson Rudnick has arrangements to receive investment-related research products or services provided by the same broker-dealer, which are separate from the clients' direction to use a particular broker to execute either all or part of the brokerage transactions from their accounts. Commission rates and execution quality obtainable from the directed broker can in certain circumstances be less favorable than those obtainable from other brokers for various reasons, including the following: (1) Generally, orders subject to client brokerage direction cannot be aggregated with contemporaneous orders for non-directed accounts and therefore cannot benefit from any economics of scale that apply to larger orders; (2) directed brokers could achieve less favorable prices than brokers we would select based on execution capability; and (3) client brokerage direction limits our ability to negotiate commissions rates charged by directed brokers and limits our ability to transact with large institutional investor liquidity and minimize market impact and could impact our ability to achieve best execution.

Other than to satisfy its obligation to seek best execution, Kayne Anderson Rudnick does not have authority to determine the broker-dealer(s) to be used for a wrap account or for a direct-fee account when

the client has directed Kayne Anderson Rudnick to use a specific broker-dealer.

## Step-Out Trades

Step-out trades are trades in which an executing broker-dealer executes an order but agrees to allocate a designated portion of the order for clearance and settlement by another broker-dealer. The executing broker-dealer clears and settles the portion of the order not stepped out and can add a charge to the overall cost of the trade. Kayne Anderson Rudnick utilizes step-out trades for certain of its clients, including its wealth advisory, wrap and sub-wrap clients, and dual contract clients, in certain instances to guard against information leakage and minimize market impact during trading, as well as to obtain best execution. Kayne Anderson Rudnick seeks to work with one or a limited number of brokers that, for our wealth advisory, wrap and sub-wrap clients, is not the particular client's broker, who can access a wider variety of liquidity sources up to and including finding a natural counterparty. These firms have particular industry expertise or are able to provide "high-touch capabilities." By consolidating our trade executions to a limited number of brokers, Kayne Anderson Rudnick can more efficiently transact on behalf of all of our clients while at the same time limiting leakage. Step-out trades can benefit clients by allowing Kayne Anderson Rudnick to source liquidity and execute trades with natural buyers and sellers on terms more favorable than might otherwise be available in the market.

Kayne Anderson Rudnick utilizes the services of a trade and/or settlement aggregator (an "Aggregator") when placing block orders that include step-out trades. Kayne Anderson Rudnick believes that the use of an Aggregator can address issues associated with market fragmentation, including but not limited to additional clearing/settlement costs associated with the executions through multiple trading venues, by enabling Kayne Anderson Rudnick to access multiple pools of liquidity while minimizing clearing/settlement costs. The cost of the aggregation service is included in the commission rates or net prices associated with the underlying trades.

Wrap sponsors and/or custodians of directed accounts and dual contract SMA accounts often charge additional fees for any trades that are stepped out to another broker-dealer. Dual contract SMA accounts are accounts where the end-client has an investment management agreement with their registered investment adviser as well as with Kayne Anderson Rudnick for each party's individual services. Confirmations from wrap sponsors with respect to "step-out" or "trade-away" trades in sponsor accounts and dual contract SMA accounts can reflect, within the price per share, applicable net costs instead of reflecting this as a separate item on the confirmation. A wrap client can incur an additional "net" trade cost if a trade is made away from the client's wrap sponsor. For fixed-income trades, the commission is not generally shown on the trade confirmation but is reflected in the negotiated price of the bond. Kayne Anderson Rudnick believes that it is able to effect trades away from the designated broker in order to obtain best execution without jeopardizing its business relationships, and, in any case, its policy and practice are to act in the best interest of its clients. Directed brokerage clients that do not allow Kayne Anderson Rudnick to participate in step-out trades often pay higher commission and implementation costs commission and implementation than clients that allow Kayne Anderson Rudnick to participate in step-out trades. Accounts that participate in step-out trades can incur additional transaction costs.



## Trade Aggregation and Allocation

As part of its effort to obtain best execution, Kayne Anderson Rudnick aggregates orders, or “block trades,” for several clients. Kayne Anderson Rudnick believes that aggregation or “bunching” orders results in a more favorable overall execution. Kayne Anderson Rudnick trades all non-directed accounts that don’t contain trade restrictions for contemporaneous purchase and sell orders as a single block where it deems this to be appropriate, in the best interest of clients and consistent with Kayne Anderson Rudnick’s fiduciary duties. The decision to aggregate is only made after Kayne Anderson Rudnick determines that: it does not intentionally favor any account over another; it does not systematically advantage or disadvantage any account; Kayne Anderson Rudnick does not receive any additional compensation or remuneration solely as the result of the aggregation; and each participating account will receive the average share price and will share transaction costs on a pro-rata basis. Traders and members of the Portfolio Implementation group consider various criteria when evaluating whether to aggregate an order, including, as relevant, the participating accounts’ investment objectives and guidelines, policies, tax status, nature and size of the block trade, and any other factors deemed appropriate under the circumstances. These trades are modeled in our order management system, and then executed simultaneously as a block. Fully-executed blocks are allocated to accounts on a pro-rata basis, rounding as necessary. If a trade is only partially completed, the trader primarily allocates the shares on a pro-rata basis across all accounts, rounding as necessary. If a small number of shares were executed out of a larger order where there were many accounts involved in the initial order, it is often unrealistic to spread the small number of executed shares over all of the accounts. In such cases, the trader allocates the executions on a randomized basis so as not to unfairly favor one account over another, while recognizing that many bank or discount brokerage domiciled accounts are charged per trade no matter what the size. In situations for which pro-rata allocations would result in excessive trading costs, the allocation is also made based on simple random selection.

On the occasion that the traders receive an order for a security at the same time as there is an existing open order with a broker, the additional order is added to the existing open order. However, any partial fills of the existing open order that occurred prior to the time of the placement of the second order with the same broker shall be allocated solely to the clients participating in the existing open order based on guidance herein, and the unfilled portion of the existing open order is added into the subsequent order.

Clients should be aware that certain types of purchase or sale transactions are not able to be included in aggregated orders. Such transactions include trades resulting from the opening and closing of accounts, trades resulting from contributions to or withdrawals from existing accounts, and trades for accounts with highly particularized investment policies or restrictions. In such cases, clients’ executions can be better or worse than they might otherwise receive from aggregated orders

Directed brokerage client accounts will trade behind non-directed accounts and in the order dictated by the results of randomization. Third-party model sponsor relationships are included in the directed brokerage rotation. Buy and sell recommendations within a strategy model will be updated and communicated in the order determined in the rotation. In such instances, these broker-directed accounts can trade at

prices that are lower or higher than Kayne Anderson Rudnick’s other client accounts. If there are limitations to the prompt execution of trades by the model sponsor/overlay manager, if the model sponsor/overlay manager does not, or is not able to, communicate the status of completed orders back to Kayne Anderson Rudnick, or if there are other restrictions that could disadvantage other directed accounts, changes to the model portfolio will be communicated after trades are placed or executed for Kayne Anderson Rudnick’s other directed accounts. Kayne Anderson Rudnick does not exercise trading discretion over the model accounts as execution of the trades is the responsibility of the model sponsor.

## Miscellaneous

Those direct-fee clients who seek advice from Kayne Anderson Rudnick on broker selection have many options available to them. These options include discounted brokerage firms, such as Charles Schwab and Co. (“Schwab”) and Fidelity Investments (“Fidelity”), and clients can also choose to become a retail client of the many other unaffiliated brokerage firms with which Kayne Anderson Rudnick conducts business. The commission rates and minimum ticket charges charged by the discount firms are generally more favorable than retail rates normally charged by full-service brokerage firms, and in some cases the discount firms have ceased charging commissions for most or many transactions. However, full-service firms might, in their clients’, view offer additional services of value to the client. Commission rates are subject to change from time to time, and clients are encouraged to inquire into the rates available to them at the time they engage Kayne Anderson Rudnick, or at any other time.

The market price of small-cap securities generally is more volatile than that of more-liquid securities, which can adversely affect the price that a client pays for or recovers upon the sale of a small-cap security. Small-cap securities can be difficult to dispose of at a fair price or rapidly when a client terminates an account.

Investments in securities of non-U.S. issuers can involve more risk than those in securities of U.S. issuers. Equities of non-U.S. issuers can fluctuate more widely in price and be less liquid due to adverse market, economic, political, regulatory, or other factors. Trades on foreign exchanges generally incur greater transactions charges than trades on U.S. exchanges.

## Fixed-Income Practices

Fixed-income trade allocations are usually determined prior to or at the same time as the placement of a trade. However, in those circumstances where an order is only partially filled or when a security is acquired prior to determining the allocation, the trader allocates the trade in a manner that is fair and equitable to all affected accounts. Such allocations are based on the specific instrument traded, the available position size, the instrument’s duration, and the instrument’s market sector as well as the needs of the accounts within the fixed income portfolio at the time of allocation.

Securities for fixed-income discretionary accounts are traded either through competitive bids/offers, by comparison of bids/offers, or through comparison of the price level with levels seen in the market. In the case of broker-directed trades, every effort is made to bring the trade price in line with the institutional market.

When purchasing municipal bonds for discretionary accounts, comparisons are made between the bond being offered and bonds with similar characteristics trading in the market at the time. Comparisons are made based on credit name, structure (i.e., coupon, maturity and call/put options), underlying credit rating, credit enhancement, municipal sector, etc. When selling municipal bonds for broker discretionary accounts, multiple bids are sought. In the case of broker-directed trades, every effort is made to bring the trade price in line with the institutional market. On broker-directed accounts where the client or broker does not allow the adviser to step-out the trades, the client could incur a higher cost than broker discretionary accounts.

## Research and Other Soft-Dollar Benefits

Subject to applicable law and regulation, Kayne Anderson Rudnick effects securities transactions with broker-dealers that provide brokerage or research services or pay for research services provided by third parties to us. These services are paid with soft dollar credits generated by our clients' brokerage commissions. These types eligible transactions and benefits received are in accordance with Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). Kayne Anderson Rudnick has established a Best Execution Committee, consisting of members from administration, trading, portfolio management, and compliance. The Best Execution Committee reports to the Risk and Compliance Committee. The Best Execution Committee generally meets quarterly to review brokerage allocation activity of the firm and to identify the quality of execution and settlement services provided. It also reviews the approved broker list and the value to client portfolios of the purchased product or service. Soft-dollar arrangements are reviewed and approved by at least two members of the Best Execution Committee, including the Chief Investment Officer and Chief Compliance Officer, based on a good-faith determination that the amount of the commission paid is reasonable in light of the brokerage and research services being provided.

Under Section 28(e) of the Securities Exchange Act of 1934, Kayne Anderson Rudnick can pay a broker a commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of the brokerage and research services provided by or through the broker. When it does so, Kayne Anderson Rudnick has an incentive to select or recommend a broker-dealer based on its interest in receiving research or other products or services rather than in the clients' interest in receiving a better commission rate, and this presents a conflict of interest between Kayne Anderson Rudnick and its clients that we mitigate with our best execution policies and procedures. Kayne Anderson Rudnick believes that it is important to its investment decision-making processes to have access to independent research. Research furnished by brokers (proprietary research) and research created or developed by other third parties can be used to service any or all of Kayne Anderson Rudnick's clients and is used in connection with accounts other than those making the payment to the broker providing the research, in accordance with Section 28(e). The receipt of these benefits means that Kayne Anderson Rudnick benefits because it does not have to produce or pay for these research services itself. Only brokerage commissions from certain but not all client accounts are used to pay for the research services furnished by brokers. Kayne Anderson Rudnick uses these research services to service all of its accounts and not just the accounts whose transactions paid for the research services. It is possible that the accounts whose transactions generate brokerage commissions that are used to pay some of Kayne Anderson Rudnick's research obligations

do not benefit in any way from this specific research. Kayne Anderson Rudnick does not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.

Brokerage and research services provided by brokers falling within the Section 28(e) safe harbor during the current year and last fiscal year includes, but is not limited to, proprietary research and research created or developed by a third-party that provides information regarding the economy, industries, sectors of securities, individual companies, statistical information, technical market action, pricing and appraisal services, risk-measurement analysis and performance analytics. Such research services are received primarily in the form of written reports, telephone contact and personal meetings with securities analysts or company management. In addition, such research services can be provided in the form of access to various computer-generated data and access to investment-related conferences and seminars.

In some cases, research services are generated by third parties but are provided to Kayne Anderson Rudnick by or through brokers. Kayne Anderson Rudnick uses a variety of securities-quotation hardware and software for day-to-day portfolio management of some or all of its accounts. Most of the services include additional statistics, analytical tools and news used solely for portfolio management purposes.

Our use of soft dollar arrangements creates conflicts of interest between us and our clients as we have an incentive to disregard our best execution obligations when selecting brokers that provide us with soft dollar benefits. We manage this conflict of interest by entering into commission sharing arrangements ("CSAs") with brokers that we believe provide best execution. Kayne Anderson Rudnick has entered into these CSAs as a means to facilitate soft-dollar payments. CSAs enable Kayne Anderson Rudnick to pool commission dollars generated in trades with certain brokers to be aggregated and distributed to other brokers to pay for investment research. This allows Kayne Anderson Rudnick to compensate research providers who do not have brokerage operations where traditional soft dollars can be credited through trade execution or where, in support of Kayne Anderson Rudnick's policy to seek best execution, Kayne Anderson Rudnick's traders decide that a research provider's trading desk is not capable of providing best execution when compared to other broker-dealers.

## Suggestion of Brokers

A client can instruct Kayne Anderson Rudnick to use a specified broker-dealer for the client's account, although Kayne Anderson Rudnick reserves the right not to accept such instruction in cases where it does not have a working relationship with the designated broker-dealer. However, the client should be aware that, where it directs Kayne Anderson Rudnick to use a specific broker-dealer: (1) a higher commission rate (or fees in the case of wrap-program accounts) might be paid by such client, in part because of additional services which might be available from such broker-dealer as well as Kayne Anderson Rudnick's inability to negotiate the commission rate or obtain volume discounts when the client's transaction is combined with those of other clients in a block trade; and (2) the execution of trades for the client by the designated broker-dealer could result in failure to receive the best execution in some transactions. Kayne Anderson Rudnick is generally required by wrap-program sponsors to direct trades for client accounts in such programs to such sponsors or their affiliates.



A client who directs Kayne Anderson Rudnick to use a particular broker-dealer, including a client who directs use of a broker-dealer that also serves as a custodian (whether or not recommended by Kayne Anderson Rudnick), should consider whether commissions expenses, execution, clearance and settlement charges and custodial fees, if applicable, are comparable to those otherwise obtainable by Kayne Anderson Rudnick.

While Kayne Anderson Rudnick does not consider, in selecting or recommending broker-dealers, whether we receive client referrals from that broker-dealer, Kayne Anderson Rudnick can and does benefit by receiving new client referrals from Fidelity given we have other arrangements with Fidelity, as described in Item 14, or other broker-dealers who earn commissions on trades for accounts of existing clients of Kayne Anderson Rudnick. As a result, a conflict of interest exists between Kayne Anderson Rudnick's interest in such referrals and its obligation to seek the best execution of client trades. We believe this conflict is mitigated by our best execution policies and procedures.

## Cross Transactions

Where appropriate, Kayne Anderson Rudnick engages in cross transactions with eligible advisory accounts and, when it does so, it seeks to comply with applicable disclosure and consent requirements associated with such transactions under the Investment Advisers Act of 1940. To reduce transaction costs and promote trading efficiency for its mutual fund clients, Kayne Anderson Rudnick can engage in cross transactions consistent with procedures adopted pursuant to Rule 17a-7 under the Investment Company Act of 1940.

## Initial Public Offerings (IPOs)/Secondary Offerings

From time to time, Kayne Anderson Rudnick participates in an initial public offering ("IPO") or secondary offerings (together, "Public Offerings"). Generally, in the event that Kayne Anderson Rudnick receives an allocation for a Public Offering security, it is Kayne Anderson Rudnick's policy is to allocate the securities proportionally among client portfolios based on asset value and suitability for the investment strategy being allocated to. Appropriateness for a specific investment strategy or strategies is determined by Kayne Anderson Rudnick based on a number of factors, including but not limited to, the investment strategy's objectives, existing securities in the investment strategy's portfolio, available cash and purchasing power, and portfolio investment restrictions. At Kayne Anderson Rudnick's sole discretion, a small allocation of a Public Offering would be allocated to only one or a few client portfolios within a particular investment strategy if it is determined that allocation among eligible accounts in the entire investment strategy would be inefficient or impossible. As such, while based on objective criteria, Kayne Anderson Rudnick's allocation of any specific Public Offering might not result in proportional allocation across all of its client portfolios. Kayne Anderson Rudnick, however, has allocation policies and procedures in place that are reasonably designed to treat all client portfolios fairly and equitably over time and avoid giving preference to any particular client or type of clients when allocating a Public Offering.

## Error Correction

Although Kayne Anderson Rudnick takes all reasonable steps to avoid errors in our trading process, occasionally errors do occur. It is our policy that trade errors be identified and resolved promptly and in a manner consistent with Kayne Anderson Rudnick's fiduciary duty to its

clients. Consistent with this duty, the overriding goal in trade-error resolution is to seek to place the client in the same position that the client would have been in had the error not occurred. There is no single method of calculating gains, losses or compensation due as a result of a trade error. The determination of the method is highly dependent on the facts and circumstances of the error in question. Kayne Anderson Rudnick will determine the most appropriate calculation methodology on a case-by-case basis in light of the specific facts and circumstances of each trade error.

## Item 13 – Review of Accounts

A record-keeping account is established and maintained on Kayne Anderson Rudnick's portfolio accounting system for each managed client account. Among other pertinent data, information concerning the client's investment objectives and guidelines is maintained as part of the account records. This information identifies such matters as overall investment strategy, asset allocation targets and cash distribution requirements, as well as any special portfolio restrictions. In the case of wrap programs where Kayne Anderson Rudnick serves as investment sub-adviser, the program sponsor maintains and provides Kayne Anderson Rudnick with electronic access to the information contained in client record-keeping accounts because trading is conducted through the wrap sponsor's trading platform.

Generally, each account is invested using an approved model portfolio for the chosen strategy. Some direct client accounts are invested with adjustments to the model portfolio where directed by the client because of tax and other special circumstances. As a result, such accounts can be weighted differently or hold securities not in the model portfolio for a number of reasons, including how much of the security Kayne Anderson Rudnick already owns on behalf of its other investment advisory clients; these accounts will vary from the model for various reasons. Once initially invested, the account is regularly monitored for any drift or variance from the model portfolio weightings and client guidelines. This process is conducted by our portfolio managers, portfolio management associates, investment adviser associates and wrap traders. The number of accounts reviewed by each person varies based on the type of account. Kayne Anderson Rudnick's compliance department also performs periodic account reviews that can cover various facets, including but not limited to comparing an account's strategy and/or allocation to the account's stated risk tolerance or objectives, reviewing performance of accounts within a particular investment strategy, and reviewing the billing rate.

Kayne Anderson Rudnick manages accounts on a discretionary basis and for those accounts has full authority in determining which securities are purchased and sold. Kayne Anderson Rudnick normally sells some or all of the securities in a client account after the initial receipt of the account or the deposit of additional securities into the account. Some securities are normally retained in the account to the extent that they are included in Kayne Anderson Rudnick's model holdings for such an account or if so requested by the client. The client is responsible for any tax liabilities that result from such transactions.

For direct-fee accounts, Kayne Anderson Rudnick is available to meet with the client at least once a year or, in some cases, as often as quarterly if requested by the client. Account reviews are conducted with clients by the client service representatives, with the assistance of the portfolio managers, as appropriate. Wrap-fee accounts (both advisory and sub-advisory) have access to the same personnel through their

respective program sponsors or they can contact us directly at any time. Direct accounts can be provided with (i) quarterly (in some cases, monthly) reports identifying holdings and performance and (ii) if taxable, annual reports identifying realized gains/losses, and interest and dividends received. Based upon the sponsor's preference, wrap-program accounts (other than sub-advisory accounts) are provided quarterly reports identifying holdings and, for some programs, performance.

Kayne Anderson Rudnick offers financial planning services, including retirement and cash-flow planning, risk management, estate planning and wealth transfer, charitable gifting solutions and tax management. The nature of the Firm's financial planning services means that the Firm typically doesn't conduct ongoing reviews of such financial plans unless specifically requested by the client. In the event that a client requests Kayne Anderson Rudnick to review financial plans on an ongoing basis, the wealth advisor or senior wealth advisor assigned to such client would conduct such review in accordance with such instructions.

## Item 14 – Client Referrals and Other Compensation

Kayne Anderson Rudnick maintains and from time to time enters in to contractual solicitation agreements with certain affiliated and unaffiliated parties who refer clients to Kayne Anderson Rudnick. Kayne Anderson Rudnick, in turn, compensates these parties for any such solicitations based on the assets that are managed by Kayne Anderson Rudnick arising from such solicitation. The persons or entities providing the solicitation services are commonly known as "solicitors." All solicitation agreements are made in writing, pursuant to, and in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940.

As discussed in Item 10, above, Kayne Anderson Rudnick has solicitation arrangements with VP Distributors, LLC ("VPD") and Virtus Investment Partners International, Ltd. ("Virtus International"), both affiliates of Kayne Anderson Rudnick, whereby Kayne Anderson Rudnick compensates those entities for referrals in certain circumstances. The Investment Advisers Act of 1940, as amended, requires that when an affiliate acts as a solicitor for Kayne Anderson Rudnick such affiliate discloses to the potential client that the solicitor is affiliated with Kayne Anderson Rudnick. The compensation paid by Kayne Anderson Rudnick to VPD and Virtus International for these solicitation arrangements generally is structured as being all or a portion of any variable compensation paid by VPD or Virtus International to its employee(s) relating to assets under management by Kayne Anderson Rudnick that were referred by such employee(s), and in some cases the compensation also includes a percentage of VPD's or Virtus International's costs with respect to employment of the individual(s).

With respect to Kayne Anderson Rudnick's management of certain UCITS funds, Kayne Anderson Rudnick or any of its affiliates providing management to such UCITS funds, at their discretion and where permitted by applicable law, can rebate part or all of the management fees charged to the UCITS funds to any UCITS fund shareholder or use part of such management fees to remunerate certain financial intermediaries of such UCITS funds for services provided to fund shareholders.

Kayne Anderson Rudnick has relationships with certain consulting firms and other intermediaries. For example, Kayne Anderson Rudnick, from time to time, purchases products or services, such as investment manager performance data, from consulting firms. In compliance with applicable law and regulation, Kayne Anderson Rudnick or an affiliate from time to time also pay event attendance or participation or other fees; underwrite educational, charitable or industry events; or provide gifts of value to, or at the request of, an organization or individual (including Kayne Anderson Rudnick affiliates) that, among other things: (i) offers or includes products or services of Kayne Anderson Rudnick or an affiliate in a particular program; (ii) permits Kayne Anderson Rudnick or an affiliate access to their financial advisers, brokers, employees, or other affiliated persons to provide training, marketing support, and educational presentations on products or services affiliated with Kayne Anderson Rudnick; and/or (iii) refers or has referred a client to Kayne Anderson Rudnick. Kayne Anderson Rudnick obtain products and/or services from consulting firms separate and apart from any recommendations made to clients for Kayne Anderson Rudnick's investment services, and in doing so, often also provides cash or non-cash support for educational, training, marketing and other events sponsored by consulting firms and other intermediaries, subject to internal policies and regulatory restrictions. Additionally, certain affiliated or third party institutions provide financial support on a voluntary basis for marketing, educational, and sales meetings of Kayne Anderson Rudnick or affiliates. Kayne Anderson Rudnick also from time to time pays a fee for inclusion of information about the firm in databases maintained by certain unaffiliated third-party data providers that in turn make such information available to their investment consultant clients. The payments and benefits described in this paragraph could give the firms receiving them and their personnel an incentive to favor Kayne Anderson Rudnick's investment advisory services over those of firms that do not provide the same payments and benefits.

Additionally, Kayne Anderson Rudnick or any of its affiliates can and do enter into arrangements with, and/or make payments from their own assets to, certain intermediaries to enable access to Virtus Funds on platforms made available by such intermediaries or to assist such intermediaries to upgrade existing technology systems or implement new technology systems or programs in order to improve the methods through which the intermediary provides services to Kayne Anderson Rudnick and its affiliates and/or their clients. Such arrangements or payments establish contractual obligations on the part of such intermediary to provide Kayne Anderson Rudnick's or an affiliate's fund clients with certain exclusive or preferred access to the use of the subject technology or programs or preferable placement on platforms operated by such intermediary. The services, arrangements and payments described in this paragraph present conflicts of interest because they provide incentives for intermediaries, customers or clients of intermediaries, or such customers' or clients' service providers to recommend, or otherwise make available, Kayne Anderson Rudnick's or its affiliates' strategies or Virtus Funds to their clients in order to receive or continue to benefit from these arrangements from Kayne Anderson Rudnick or its affiliates. The provision of these services, arrangements and payments described above by Kayne Anderson Rudnick or its affiliates is only to the extent permitted by applicable law and guidance and is not dependent on the amount of Virtus Funds or strategies sold or recommended by such intermediaries, customers or clients of intermediaries, or such customers' or clients' service providers.

Kayne Anderson Rudnick participates in the Fidelity Wealth Advisor Solutions® Program (the "WAS Program"), through which Kayne Anderson Rudnick receives referrals from Fidelity Personal and Workplace Advisors LLC (FPWA), a registered investment adviser and Fidelity Investments company. Kayne Anderson Rudnick is independent and not affiliated with FPWA or any Fidelity Investments company. FPWA does not supervise or control Kayne Anderson Rudnick, and FPWA has no responsibility or oversight for Kayne Anderson Rudnick's provision of investment management or other advisory services.

Under the WAS Program, FPWA acts as a solicitor for Kayne Anderson Rudnick, and Kayne Anderson Rudnick pays referral fees to FPWA for each referral received based on Kayne Anderson Rudnick's assets under management attributable to each client referred by FPWA or members of each client's household. The WAS Program is designed to help investors find an independent investment adviser, and any referral from FPWA to Kayne Anderson Rudnick does not constitute a recommendation or endorsement by FPWA of Kayne Anderson Rudnick's particular investment management services or strategies. More specifically, Kayne Anderson Rudnick pays the following amounts to FPWA for referrals: the sum of (i) an annual percentage of 0.10% of any and all assets in client accounts where such assets are identified as "fixed-income" assets by FPWA and (ii) an annual percentage of 0.25% of all other assets held in client accounts. In addition, Kayne Anderson Rudnick has agreed to pay FPWA a minimum annual fee amount in connection with its participation in the WAS Program. These referral fees are paid by Kayne Anderson Rudnick and not the client.

To receive referrals from the WAS Program, Kayne Anderson Rudnick (the "Adviser") must meet certain minimum participation criteria, but the Adviser has other business relationships with FPWA and its affiliates, including Fidelity Brokerage Services, LLC ("FBS"), and therefore it is possible that the Adviser was selected for participation in the WAS Program, at least in part, as a result of these other relationships, though the extent of this possibility is unknown to the Adviser. As a result of its participation in the WAS Program, Kayne Anderson Rudnick has a potential conflict of interest with respect to its decision to use certain affiliates of FPWA, including FBS, for execution, custody and clearing for certain client accounts. Kayne Anderson Rudnick has an incentive to suggest the use of FBS and its affiliates to its advisory clients, whether or not those clients were referred to Kayne Anderson Rudnick as part of the WAS Program. Under an agreement with FPWA, Kayne Anderson Rudnick has agreed that it will not charge clients more than the standard range of advisory fees disclosed in its Form ADV 2A Brochure to cover solicitation fees paid to FPWA as part of the WAS Program. Pursuant to these arrangements, the Adviser has agreed not to solicit clients to transfer their brokerage accounts from affiliates of FPWA or establish brokerage accounts at other custodians for referred clients other than when Kayne Anderson Rudnick's fiduciary duties would so require. The Adviser has agreed to pay FPWA a one-time fee equal to 0.75% of the assets in a client account that is transferred from FPWA's affiliates to another custodian; therefore, Kayne Anderson Rudnick has an incentive to suggest that referred clients and their household members maintain custody of their accounts with affiliates of FPWA. However, participation in the WAS Program does not limit Kayne Anderson Rudnick's duty to select brokers on the basis of best execution. While the specific terms of each agreement can differ, the referral source typically receives a percentage of the management fees received by Kayne Anderson Rudnick from accounts referred by the referral source. In some cases, referral fees can be based on a percent

of the assets under management from accounts referred by the referral source. Referral fees are paid by Kayne Anderson Rudnick and not the client. Referral source compensation is not a factor in determining, nor does it adversely affect, the fee Kayne Anderson Rudnick charges for its investment management or advisory services.

A conflict of interest exists between any clients solicited for Kayne Anderson Rudnick by the aforementioned parties in that they are compensated by Kayne Anderson Rudnick for introducing investment advisory business to Kayne Anderson Rudnick, and the solicitor's receipt of such compensation from Kayne Anderson Rudnick could influence decision to recommend Kayne Anderson Rudnick in a way that is in conflict with the interests of the prospective client. This conflict of interest is mitigated by the requirement that Kayne Anderson Rudnick's Form ADV Part 2A and a disclosure statement of the solicitation arrangement, as applicable, between Kayne Anderson Rudnick and the solicitor be provided to the prospective client at the time of introduction.

As a condition of a wrap program, the wrap sponsor is often directly or indirectly registered as an investment adviser under the Investment Advisers Act of 1940. Such wrap sponsors from time to time request the Firm to directly or indirectly pay for some of a wrap sponsor's marketing and advertising expenses, which also can include certain incentive programs. To this extent, Kayne Anderson Rudnick could be deemed to be sharing its fees with another investment firm.

## Item 15 – Custody

Kayne Anderson Rudnick's investment management clients' assets are held at unaffiliated qualified custodians, and Kayne Anderson Rudnick reasonably believes that such qualified custodians send our investment management clients an account statement on at least a quarterly basis. For those clients who have authorized Kayne Anderson Rudnick to deduct advisory fees directly from such client's custodian account(s), Kayne Anderson Rudnick is deemed to have custody of such client's funds and securities in that account under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, even though Kayne Anderson Rudnick does not hold these assets.

Clients should receive statements on at least a quarterly basis from the broker-dealer, bank or other qualified custodian that holds and maintains client investment assets. Kayne Anderson Rudnick urges clients to carefully review such statements and compare such official custodial records to the account statements that Kayne Anderson Rudnick provides to clients under separate cover. Kayne Anderson Rudnick's statements can vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

## Item 16 – Investment Discretion

Kayne Anderson Rudnick generally has full discretion to buy and sell securities without prior client approval under its investment advisory agreements with its clients, and in such capacity, Kayne Anderson Rudnick holds a limited power of attorney to act without prior consultation as its clients' investment adviser in its investment advisory agreements. Kayne Anderson Rudnick exercises its investment discretion consistent with its fiduciary duties and investment philosophy, as well as any investment guidelines or restrictions imposed by client and accepted by Kayne Anderson Rudnick. Kayne Anderson Rudnick does not advise clients for a fee with respect to (i) holdings outside their managed accounts or (ii) holdings in their

managed accounts which are designated as unsupervised at the direction of or with notice to the client.

## Item 17 – Voting Client Securities

### Summary of Proxy Voting Policy

Kayne Anderson Rudnick has adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of our clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940.

The principles for voting proxies are as follows:

1. The Firm votes all proxies to, in its opinion, maximize shareholder value, which is defined as long-term value through dividend and price appreciation. In addition, the Firm's investment philosophy is to purchase "quality" companies for the portfolios of its clients. One of the four main criteria for "quality" is excellence in management. Hence, the Firm tends to vote non-shareholder-value issues in alignment with management's recommendations, if there is no conflict with shareholder value. For example, "poison pills" and other anti-takeover measures are not supported, even if recommended by management.
2. To assist in analyzing proxies, Kayne Anderson Rudnick subscribes to Institutional Shareholder Services ("ISS"), an unaffiliated third-party corporate governance research service that provides in-depth analyses of shareholder meeting agendas and vote recommendations. Kayne Anderson Rudnick fully reviews and approves the ISS Proxy Voting Guidelines and follows its recommendations on most issues brought to a shareholder vote. In special circumstances, where a Kayne Anderson Rudnick research analyst or portfolio manager believes that any ISS recommendation would be to the detriment of our investment clients, Kayne Anderson Rudnick will override an ISS recommendation. At least one member of the Risk and Compliance Committee can approve an override on such basis. Additionally, Kayne Anderson Rudnick utilizes ISS to vote proxies on its behalf pursuant to the ISS Proxy Voting Guidelines. Absent any special circumstance, the Proxy Voting Guidelines are followed when voting proxies.
3. Kayne Anderson Rudnick is occasionally subject to conflicts of interest in the voting of proxies because of business or personal relationships it maintains with persons having an interest in the outcome of specific votes. Kayne Anderson Rudnick and its employees also occasionally have business or personal relationships with other proponents of proxy proposals, participants in proxy contests, corporate directors or candidates for directorships. If, at any time, the responsible voting parties become aware of any type of potential conflict of interest relating to a particular proxy proposal, they are to promptly report such conflict to the chief compliance officer. Conflicts of interest are handled in various ways depending on the type and materiality, but Kayne Anderson Rudnick seeks to avoid and mitigate such conflicts of interest as much as possible when carrying out its business.

Kayne Anderson Rudnick's current Proxy Voting Policy and Guidelines are posted on the public section of the Firm's website, [www.kayne.com](http://www.kayne.com). For a copy of the policy or guidelines and inquiries regarding how a specific proxy proposal was voted, please contact Compliance at 800.231.7414 or [compliance@kayne.com](mailto:compliance@kayne.com).

### Class Actions

A securities "class action" lawsuit is a civil suit brought by one or more people ("Plaintiffs") on behalf of themselves and others who have the same grievance against the issuer of a certain security.

When a class action is filed, a written notice of filing or settlement is prepared (the "Notice"), which outlines the reasons for the lawsuit, the parameters for qualification as a member of the class, and certain legal rights that need to be considered before becoming a member of the class (i.e., participating in the settlement). In addition, the Notice contains instructions issued by the court to brokers/dealers and/or other nominees (e.g., custodians) who receive the Notice and who hold the security on behalf of the owner/beneficiary, to either (1) provide the claims administrator (usually the attorney for the Plaintiffs) with the name and address of each such owner/beneficiary so the claims administrator can send the Notice directly to such owner/beneficiary, or (2) request additional copies of the Notice and send the Notice directly to the owner/beneficiary.

In some cases, in addition to the owner/beneficiary, Kayne Anderson Rudnick also receives notification of a class action. Since, as described above, the broker/dealer, nominee, or claims administrator is responsible for sending the Notice to the owner/beneficiary of the security, and Kayne Anderson Rudnick does not hold securities on behalf of its clients, Kayne Anderson Rudnick does not relay or otherwise send any additional notification of these class actions to its clients.

Because each class action involves certain legal rights that must be considered by the owner/beneficiary of the security before becoming a member of the class, Kayne Anderson Rudnick does not instruct or give advice to its clients on whether or not to participate as a member of the class.

In addition, since (1) the client, not Kayne Anderson Rudnick, is the owner/beneficiary of the securities that Kayne Anderson Rudnick purchases in a client's account, and (2) Kayne Anderson Rudnick does not have any knowledge of whether or not the client purchased the security in any account not managed by Kayne Anderson Rudnick, Kayne Anderson Rudnick cannot automatically file a claim on the client's behalf in any class action. Generally, the client will be asked to contact his or her custodian for transaction information. However, if the client requests additional assistance, Kayne Anderson Rudnick endeavors to provide the client with transaction information in its possession pertaining to the client's account that could be helpful and/or needed in order for the client to file a proof of claim in a class action to the extent such information is still required to be maintained by the Investment Advisers Act of 1940 or any other applicable superseding rule or regulation.

## Item 18 – Financial Information

Kayne Anderson Rudnick is required in this Item to provide you with certain financial information or disclosures about our financial condition. Kayne Anderson Rudnick currently has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to its clients and has not been the subject of a bankruptcy proceeding at any time during the past ten years.

## Privacy Policy

Privacy Notice	
FACTS	WHAT DOES KAYNE ANDERSON RUDNICK INVESTMENT MANAGEMENT, LLC DO WITH YOUR PERSONAL INFORMATION?
WHY?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share and protect your personal information. Please read this notice carefully to understand what we do.
WHAT?	<p>The types of personal information we collect and share depend on the product or service you have with us. This information can include:</p> <ul style="list-style-type: none"> <li>• Social Security Number and investment experience</li> <li>• Account balances and assets</li> <li>• Risk tolerance and transaction history</li> </ul> <p>When you are no longer our customer, we continue to share your information as described in this notice.</p>
HOW?	All financial companies need to share customer's personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customer's personal information; the reasons Kayne Anderson Rudnick Investment Management, LLC (Kayne Anderson Rudnick) chooses to share; and whether you can limit this sharing.

Reasons We Can Share Your Personal Information	Does Kayne Anderson Rudnick Share?	Can You Limit This Sharing
For our everyday business purposes - such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
For our marketing purposes - to offer our products and services to you	No	We do not share
For joint marketing with other financial companies	No	We do not share
For our affiliates' everyday business purposes - information about your transactions and experiences	Yes	No
For our affiliates' everyday business purposes - information about your creditworthiness	No	We do not share
For non-affiliates to market to you	No	We do not share

Questions? Call +1-800-231-7414 or e-mail [Compliance@kayne.com](mailto:Compliance@kayne.com)

## Who We Are

Who is providing this notice?	Kayne Anderson Rudnick Investment Management, LLC ("Kayne Anderson Rudnick")
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## What We Do

How does Kayne Anderson Rudnick protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.
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How does Kayne Anderson Rudnick collect my personal information?	<p>We collect your personal information, for example, when you:</p> <ul style="list-style-type: none"> <li>• Open an account</li> <li>• Seek advice about your investments</li> <li>• Enter into an investment advisory contract</li> <li>• Tell us about your investment or retirement portfolio</li> <li>• Give us your contact information</li> </ul>
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Why can't I limit all sharing?	<p>Federal law gives you the right to limit only:</p> <ul style="list-style-type: none"> <li>• Sharing for affiliates' everyday business purposes- information about your creditworthiness</li> <li>• Affiliates from using your information to market to you</li> <li>• Sharing for non-affiliates to market to you</li> </ul>
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## Definitions

Affiliates	<p>Companies related by common ownership or control. They can be financial and non-financial companies.</p> <ul style="list-style-type: none"> <li>• Our affiliates include financial companies such as Virtus Investment Partners, Inc., Duff &amp; Phelps Investment Management Co., Virtus Investment Advisers, Inc., Newfleet Asset Management, Inc., VP Distributors, LLC, Rampart Investment Management Company, LLC, Virtus Alternative Investment Advisers, Inc., Virtus ETF Advisers, LLC, Silvant Capital Management LLC, Ceredex Value Advisors LLC, SEIX CLO Management LLC and SEIX Investment Advisors LLC, Sustainable Growth Advisors LP, and Virtus Fund Advisers, LLC</li> </ul>
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Non-affiliates	Kayne Anderson Rudnick does not share with non-affiliates so they can market to you.
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Joint Marketing	Kayne Anderson Rudnick does not jointly market.
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**Questions?**     Call +1-800-231-7414 or e-mail [Compliance@kayne.com](mailto:Compliance@kayne.com)



## For California Residents Only

In addition to our Privacy Policy, the below notice is provided solely to **California residents** who are clients of Kayne Anderson Rudnick.

The California Consumer Privacy Act ("CCPA") gives you the right to know what personal information we intend to collect or have collected about you and why. For clients of Kayne Anderson Rudnick, this information was explained in our **Privacy Notice**, above.

The CCPA also provides you the right to request access to specific pieces of information we have collected from you. You also have the right to request that we delete personal information about you, however, we might not be able to delete personal information if we are required to retain this information for legal or ongoing business purposes. You can contact our Compliance Department at 1-800-231-7414 or by e-mailing [Compliance@kayne.com](mailto:Compliance@kayne.com) if you wish to make such a request.

If we do not delete certain items of personal information because we have a legal right or obligation to retain that information, we will notify you of that. Further, if we do not delete certain items of personal information because we have a legal right or obligation to retain that data, we will delete that information at such later time that we no longer have a legal right or obligation to retain that information upon such a request.

We are not required under CCPA to provide information to you about our collection of your personal information or our sale or disclosure of personal information about you more than twice within a 12-month period. Additionally, we are permitted to refuse to honor unfounded or excessive repetitive requests to us or charge a reasonable administrative fee for honoring those requests, and in either case, will notify you of any such decision.

**Questions?     Call +1-800-231-7414 or e-mail [Compliance@kayne.com](mailto:Compliance@kayne.com)**

## ERISA 408(b)(2) Disclosure

### Guide To Services And Compensation For ERISA Accounts Advised By Kayne Anderson Rudnick Investment Management, LLC (Kayne Anderson Rudnick)

The following is a guide to important information that you should consider in connection with the services to be provided by Kayne Anderson Rudnick to your ERISA account(s).

Should you have any questions concerning this guide or the information provided to you concerning our services or compensation, please do not hesitate to contact Compliance at phone number +1-800-231-7414 or email address [compliance@kayne.com](mailto:compliance@kayne.com).

Required Information	Location(s)
Description of the services that Kayne Anderson Rudnick will provide to your plan	These can be found in Kayne Anderson Rudnick's Form ADV, Part 2A under Advisory Business.
A statement concerning the services that Kayne Anderson Rudnick will provide as an ERISA fiduciary and a registered investment adviser	These can be found in your Investment Advisory Agreement under Representations or in Kayne Anderson Rudnick's Form ADV, Part 2A under Advisory Business.
Direct Compensation Kayne Anderson Rudnick will receive from your Plan	Information regarding compensation Kayne Anderson Rudnick will receive from your plan can be found in your Investment Advisory Agreement's fee schedule. A description of our fees and compensation can also be found in Kayne Anderson Rudnick's Form ADV, Part 2A under Fees and Compensation.
Indirect Compensation Kayne Anderson Rudnick will receive from other parties that are not related to Kayne Anderson Rudnick	Indirect compensation information can be found in your Investment Advisory Agreement and Schedule B (brokerage) of the Investment Advisory Agreement and in Form ADV, Part 2A under Brokerage Practices.
Compensation Kayne Anderson Rudnick will receive if you terminate this service agreement	Information regarding compensation paid upon termination of your account can be found in your Investment Advisory Agreement under Assignment/Termination. It can also be found in Form ADV, Part 2A under Fees and Compensation.
The manner in which the Plan is billed	Information regarding the manner in which your Plan is billed can be found in your Investment Advisory Agreement under Investment Advisory Fees. It can also be found in Kayne Anderson Rudnick's Form ADV, Part 2A under Fees and Compensation.
The cost to your Plan or record keeping services	Not Applicable. Kayne Anderson Rudnick is not a record keeper or administrator to your Plan.