

CONTENTS

Advisory Services and Fees.....	1
Types of Clients.....	4
Types of Investments.....	4
Methods of Analysis, Sources of Information, and Investment Strategies.....	4
Education and Business Standards.....	5
Other Business Activities.....	5
Other Financial Industry Activities & Affiliations.....	5
Participation or Interest in Client Transactions.....	5
Conditions for Managing Accounts.....	7
Review of Accounts.....	7
Investment or Brokerage Discretion.....	7
Additional Compensation.....	10
Canadian Registration.....	10
Class Action Lawsuits.....	10
Privacy Notice.....	11
Summary of Proxy Voting Policy.....	11

KAYNE ANDERSON RUDNICK
1800 Avenue of the Stars
Second Floor
Los Angeles, CA 90067

The information contained herein is provided to clients and prospective clients in accordance with Form ADV, Part II, Uniform Application for Investment Advisor Registration (SEC File Number 801-24241).

ADVISORY SERVICES AND FEES

- ◆ **One hundred percent of Kayne Anderson Rudnick Investment Management, LLC (“KAR”)'s business involves managing investment advisory accounts not involving investment supervisory services.**

KAR provides investment services and manages investment advisory accounts for individuals, trusts, estates, charitable organizations and endowments, professional and religious organizations, corporations and other commercial entities, pension and profit-sharing plans, insurers, banks and thrifts, private pooled funds, open-end investment companies, and registered investment advisers.

KAR manages accounts on a discretionary basis and has full authority in determining which securities are purchased and sold. KAR 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 KAR's normal holdings for such an account or if so requested by the client. The client is responsible for any tax liabilities which result from such transactions.

KAR invests principally in “traditional” equity securities (common stocks 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. KAR's principal portfolio strategies include large cap equities, small to mid cap equities, and international equities. KAR also offers other, more specialized or concentrated equity strategies. Although KAR invests strictly in high-quality securities, there are special risks inherent in investments in small-cap and foreign companies not applicable to domestic large-cap companies. These include, among others, reduced liquidity and currency exchange rate risk.

KAR also invests in an array of high-quality, fixed-income securities that focus on intermediate-term bonds. KAR offers both taxable and tax-free fixed-income strategies. Additionally, KAR offers cash management services.

KAR provides investment advisory services for accounts either (i) established directly with the client or (ii) introduced through wrap fee programs of other financial services firms, such as broker-dealers, registered investment advisors, and other intermediaries.

- ◆ **KAR does not consider the above services “financial planning” or any other similar term. As of December 31, 2008, the total assets under these relationships amounted to \$3.4 billion.**

DEFINITION OF TERMS USED IN THIS DOCUMENT

Related person: Any officer, manager, or member of Kayne Anderson Rudnick Investment Management, LLC or any person directly or indirectly controlling, or controlled by Kayne Anderson Rudnick Investment Management, LLC including any non-clerical, non-ministerial employee.

Investment supervisory services: Giving continuous investment advice to a client or making investments for the client based on the individual needs of that client. Individual needs include, for example, the nature of other client assets and the client's personal and family obligations.

FEE STRUCTURE

- ◆ **KAR generally charges a fixed percentage fee per annum for investment advice based on assets under management. In limited circumstances KAR offers fixed and other fees.**

ADVISORY SERVICES AND FEES - PRIVATE CLIENTS

Kayne Anderson Rudnick Wealth Advisors (“KARWA”), a division of Kayne Anderson Rudnick Investment Management, LLC, provides investment advice to high-net worth clients and makes investments for high-net worth clients based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client’s particular circumstances are established, KARWA will utilize an asset allocation model and will manage the client’s portfolio based on that model.

For each account, KARWA creates a portfolio consisting of one or more of the following: Individual equities, fixed income instruments, exchange traded funds (ETFs), cash, load, no-load and load-waived mutual funds, and alternative types of investments.

Kayne Anderson Rudnick Wealth Advisors – Fee Schedule

Minimum relationship size: \$1 million

EQUITY	FIXED INCOME	CASH MANAGEMENT
1.00% on the first \$5 million 0.85% on the next \$5 million 0.75% on the next \$10 million 0.60% on the balance	0.50% on the first \$5 million 0.35% on the next \$5 million 0.25% on the balance	0.25% for all asset amounts

ADVISORY SERVICES AND FEES - INSTITUTIONAL

KAR 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 and thrifts, and open-end investment companies. KAR manages these accounts subject to each client’s risk profile and investment guidelines.

Institutional Accounts - Fee Schedule

Minimum account size: \$5 million

U.S. LARGE CAP EQUITY	U.S. MID CAP EQUITY	U.S. SMALL-MID CAP EQUITY	U.S. SMALL CAP EQUITY
0.70% on the first \$10 million 0.50% on the next \$30 million 0.40% on the next \$60 million 0.35% on the balance	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	0.85% on the first \$25 million 0.70% on the next \$25 million 0.60% on the next \$50 million 0.50% on the balance	1.00% on the first \$25 million 0.80% on the next \$25 million 0.70% on the balance

ADVISORY SERVICES AND FEES - WRAP PROGRAMS

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 KAR a portion of the wrap fee in connection with the advisory services it provides. Under some arrangements, the wrap sponsor and KAR each charge a separate fee for their respective services.

In wrap fee accounts, KAR is chosen by the client to act as an investment adviser through a selection process administered by the wrap sponsor. The client information compiled through the selection process enables KAR to provide individualized investment services, which it maintains through ongoing contact with the wrap sponsor. KAR is available for direct telephone conversations with wrap clients at their request, and periodically, at the discretion of the wrap sponsor. The wrap sponsor’s services generally 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.

KAR serves as investment adviser under certain wrap programs and as investment sub-adviser under other wrap programs, and may act in both capacities under different programs sponsored by the same financial services firm.

Where KAR serves as a wrap investment adviser, 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, the KAR’s fee is generally paid directly by the client or authorized by the client for payment directly from the client’s account at fees generally ranging from .25% to 1.00% per annum of the market value of the client’s account.

When KAR 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 KAR as investment sub-adviser are generally lower than those paid to KAR 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 the KAR when the KAR serves as a wrap investment sub-adviser by the wrap sponsor generally range from 0.25% to 0.75% per annum of the market value of the client’s account.

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. The amount of portfolio activity in the account, the value of custodial and portfolio monitoring services, the single fee may be higher or lower than the total cost of all services the client is receiving were he or she to pay for each service separately.

ADVISORY SERVICES AND FEES - MUTUAL FUNDS

KAR provides investment management services as a sub-adviser under a sub-advisory agreement to the following portfolios registered under the Investment Company Act of 1940: Virtus Small Cap Core Fund,

Virtus Small Cap Sustainable Growth Fund, and the Virtus Quality Small Cap Fund. These Funds are affiliated with KAR. Please refer to the prospectus and other promotional material for a description of the fees and expenses related to these funds. Fees are based on assets under management.

KAR also provides investment management services as a sub-adviser under sub-advisory agreements to several Funds registered under the Investment Company Act of 1940. These Funds are unaffiliated with KAR. Fees are based on assets under management.

ADVISORY SERVICES AND FEES - MODEL PORTFOLIOS

KAR 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. These model portfolios are used by the investment advisers under contract to manage their client accounts. KAR generally does not have investment management discretion over these client accounts. KAR does not enter into a direct relationship with the clients of the investment advisory firms that offer its models, does not act as fiduciary to those clients, and provides no administrative portfolio account or account-specific performance reporting services to those clients. However, KAR typically provides periodic market commentary and information relating to the performance of its models. At the direction of the investment adviser, KAR has the ability to implement trading in these model portfolios. KAR recommendations that are provided to investment advisers are used by such investment advisers in their sole discretion. It is at the investment adviser’s discretion whether or not and to what extent to implement the model portfolio or each recommendation. The management fees paid to KAR by the investment advisers under contract are generally lower than traditional management fees charged by KAR.

KAR participates in a limited number of arrangements where it receives a model portfolio, and will exercise investment discretion. KAR utilizes these model portfolios primarily in its Wealth Advisors division.

KAR’s international assets are sub-advised by Pyrford International, a registered investment advisory firm and a subsidiary of BMO Financial Group, who is a wholly owned subsidiary of the Bank of Montreal. Pyrford’s investment strategy is to invest in well-managed companies with a proven record of profitability, a predictable and sustainable franchise, and shareholder-oriented management. Harris Bankcorp Inc., a U.S. subsidiary of Bank of Montreal owns a minority equity position in Virtus Investment Partners, Inc, the parent company of Kayne Anderson Rudnick Investment Management, LLC.

ADVISORY SERVICES AND FEES - VIRTUS INVESTMENT PARTNERS, INC

KAR has an arrangement with, VP Distributors, Inc. whereby it will enter into contracts with Wrap Sponsors to provide the Virtus AlphaSector Rotation Strategy and Virtus AlphaSector Premium Rotation Strategy to clients of the Wrap Sponsor. KAR receives a model portfolio from F-Squared Investments, Inc and exercises investment discretion with respect to these two strategies. KAR will provide middle and back office operational support to these accounts. This includes, but is not limited to portfolio administration, trading, compliance, operations, billing, and IT support. VP Distributors, Inc.

will handle the distribution of this product. The development and maintenance of Virtus AlphaSector Rotation Strategy and Virtus AlphaSector Premium Rotation Strategy marketing materials will be handled jointly by KAR and VP Distributors, Inc. The fees paid to KAR when KAR serves as a wrap investment sub-adviser by the wrap sponsor generally range from 0.40% to 0.85% per annum of the market value of the client's account.

ADVISORY SERVICES AND FEES - OTHER

KAR has a contractual arrangement with Engemann Asset Management ("Engemann"), an affiliate, to provide Engemann with KAR's Large Cap Quality Value model portfolio for clients seeking a value approach. KAR has entered into a subadvisory agreement with Engemann, wherein KAR invests the assets of Engemann clients who are seeking capital preservation and current income by investing in municipal bonds. In both cases, fees are based on assets under management.

Additionally, KAR has an arrangement with Engemann to provide middle and back office operational support to certain accounts managed by Engemann. This support includes, but is not limited to, portfolio administration, trading, compliance, operations, marketing services, billing, and IT support.

Direct accounts are normally charged a management fee based on the amount of assets under management. Although fee arrangements vary, fees are graduated according to account size and are generally lower for fixed-income accounts than for equity and balanced accounts. Fees normally are payable quarterly in advance based on the fair market value of the account as of the last day of the prior period or, in limited cases, 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 KAR's direct accounts are charged a fixed fee.

Under certain circumstances, a client of KAR requests that KAR trade a security categorized as an "unsupervised asset". An unsupervised asset is an asset managed by KAR's client. As an accommodation to the client, KAR trades these securities. KAR may charge the client 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 performance.

The foregoing describes KAR's basic fee schedule, however, fees may be negotiable where special circumstances prevail, and arrangements with any particular client may vary from the foregoing. KAR may group multiple accounts of one client relationship together for purposes of calculating the fee, or KAR may not charge a fee to small accounts of a client because of the fee the client is paying on the total relationship. KAR reserves the right to negotiate fees with clients, and may charge higher or lower fees than those described above. KAR believes that its fees are competitive with those charged by other investment advisers for comparable services; however, similar services may be available from another source for fees below those charged KAR.

KAR may purchase non-affiliated closed-end mutual funds, open-end mutual funds, or alternative types of investments for certain client accounts. These types of investments generally contain embedded management fees. Consequently, these clients may be charged both

an investment management fee or allocation fee by KAR, and the embedded management fee contained in the investments discussed above.

A client may terminate KAR's investment advisory contract upon written notice at any time and receive a pro-rata refund of fees paid in advance. At termination, KAR liquidates the client portfolio if directed by the client. In some cases, particularly in portfolios holding small-cap securities or certain fixed income securities, the liquidation of such positions may require an extended period of time.

TYPES OF CLIENTS

- **KAR provides investment advice to individuals, banks and thrift institutions, investment companies, pension and profit-sharing plans, trusts, estates and charitable organizations, corporations and other business entities.**

KAR manages pooled investment funds not available to the public. Additionally, KAR manages a pooled investment fund available to the public, and receives a management fee equal to 1% of the net asset value. In addition this fund pays an incentive allocation equal to 20% of the amount by which the annual returns of the fund, calculated on a cumulative basis, exceed the total return on the Russell 2000 Index.

TYPES OF INVESTMENTS

- **KAR may offer investment advice on the following types of investments:**
 - Equity securities (including exchange-listed securities, over-the-counter securities, and foreign issues)
 - Warrants
 - Corporate debt securities
 - Commercial paper
 - Certificates of deposit
 - Municipal securities
 - Mutual funds
 - U.S. government securities
 - Futures contracts on tangibles and intangibles
 - Interests in partnerships investing in real estate and oil and gas interests
 - Other

METHODS OF ANALYSIS, SOURCES OF INFORMATION, AND INVESTMENT STRATEGIES

- **KAR security analysis methods include fundamental and technical analysis.**
- **Sources of information used by KAR include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, company press releases, and other sources.**
- **Investment strategies employed include long-term and short-term purchases.**

KAR relies primarily on internally generated research when making investment decisions. KAR's principal sources of information include the public filings of issuers with governmental authorities; issuers' annual reports to stockholders; industry data; interactions with management via the telephone or the web; and where appropriate and feasible, company visits and conversations with suppliers and competitors. In addition, trade publications, charts and other statistical material are furnished by outside vendors. KAR also considers research furnished by broker-dealers and other industry members.

EDUCATION AND BUSINESS STANDARDS

The general standards of the education and business experience of those individuals who determine or give investment advice to clients would normally include an undergraduate degree; however, an advanced degree or graduate work is preferred. KAR generally requires its investment personnel to have several years of related business experience. Research analysts are generally Chartered Financial Analysts or candidates in the CFA program, or hold another relevant credential such as the Certified Public Accountant (CPA) designation and or have a Masters degree in business.

Biographies for KAR's key employees can be found in a separate document entitled Professional Biographies.

OTHER BUSINESS ACTIVITIES

- ◆ **KAR is not actively engaged in any business other than giving investment advice. KAR does not sell products or services other than investment advice to clients. The principal business of KAR or its principal executive officers does not involve anything other than providing investment advice.**

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

- ◆ **KAR has arrangements that are material to its advisory business or its clients with a related person who is a broker-dealer, investment company, and other investment advisor.**

RELATED ENTITIES

KAR is wholly owned by Virtus Partners, Inc. ("VP"). Virtus Partners, Inc. is a legal entity and an indirect wholly owned subsidiary of Virtus Investment Partners, Inc. ("VRTS").

BROKER-DEALER

VP owns the following broker/dealer:

VP Distributors, Inc., a registered broker-dealer that serves as the underwriter and distributor of certain registered investment companies in the Virtus family of funds, of which certain funds are subadvised by KAR.

This affiliated broker may execute securities transactions for advisory clients when specifically directed to do so by the client.

INVESTMENT COMPANIES

KAR is associated with investment companies offered by the Virtus family of funds, which are advised and subadvised by both affiliated

and non-affiliated investment advisors.

INVESTMENT ADVISORS

VP directly owns the following investment advisors:

1. Kayne Anderson Rudnick Investment Management, LLC, Registrant
2. SCM Advisors, LLC
3. Duff & Phelps Investment Management Co.
4. Euclid Advisors, LLC
5. Zweig Advisers, LLC
6. Virtus Alternative Investment Advisers, Inc.

VP directly owns the following investment advisors:

1. Engemann Asset Management
2. Virtus Investment Advisers, Inc.

KAR and KA Associates were formerly affiliated. KA Associates shares office space and certain overhead expenses with KAR, but maintains separate and independent operations.

Kayne Anderson Capital Advisors, L.P., formerly affiliated with the Adviser, shares office space and certain overhead expenses with Kayne Anderson Rudnick Investment Management, LLC.

PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS

- ◆ **KAR, or a related person, as broker or agent, effects securities transactions for compensation from clients, recommend to clients that they buy or sell securities or investment products in which KAR, or a related person, have some financial interest, and buys or sells for itself securities that KAR also recommended to clients.**

Direct fee clients of KAR may authorize KAR to use its former affiliate, KA Associates, as broker for the accounts of such clients.

KAR may recommend investment in the certain Virtus Mutual Funds. KAR serves as an investment sub-adviser to various Virtus Mutual Funds and is paid advisory fees by these Funds. KAR does not charge separate management fees on client assets which are invested in the Funds subadvised by KAR. The management fee rates paid by the Funds may be different than the management fees that are charged on separately managed assets in like strategies.

Employees of KAR may establish accounts with KAR. These accounts are managed and administered consistent with non-employee client accounts. KAR may manage the accounts of its employees and their family member for \$500 per account, per annum. Qualifying employees may also participate in certain pooled investment funds created and managed by KAR. Such pooled accounts pursue strategies which could be similar to the strategies generally made available to clients, and are expected to invest in some of the same securities purchased in client accounts. These pooled accounts are developed as potential future products to be offered to KAR's clients. The total assets under management of these pooled accounts are less than 1/10th of 1 percent of KAR's total assets under management.

CODE OF ETHICS

The KAR has adopted a Code of Ethics that emphasizes the high standards of conduct that KAR has always sought to observe. The Code of Ethics consists of general principles that are understood to govern the personal investment activities of KAR's personnel, KAR's fiduciary duty to clients, and the obligation of KAR's personnel to uphold that fundamental duty: 1) The duty at all times to place the interests of clients first; 2) The requirement that all personal securities transactions be conducted in such a manner as to be consistent with the Code of Ethics and to avoid any actual or potential conflict of interest or any abuse of an employee's position of trust and responsibility; 3) The principle that investment adviser personnel should not take inappropriate advantage of their position; 4) The fiduciary principle that information concerning the identity of security holdings and financial circumstances of clients is confidential, and 5) The principle that independence in the investment decision making process is paramount. It is the mandate of KAR that the code is conscientiously followed and effectively enforced.

PERSONAL TRADING BY KAR PERSONNEL

In addition, the Code of Ethics places restrictions on employee personal securities transactions, requires officers and employees to obtain prior approval of most of their personal securities transactions, and requires officers and employees to report periodically their personal securities transactions and holdings. KAR has implemented policies and procedures designed to ensure that personal securities transactions of its associated persons do not disadvantage KAR's clients. These procedures require pre-clearance of all personal trades by employees in securities (other than the Virtus Mutual Funds not advised by KAR, those securities covered by the de minimis Rule, Exchange Traded Funds, U.S. government securities, and various money market instruments). Some securities while not subject to pre-clearance requirements are subject to quarterly and annual reporting requirements. Adviser and its officers and employees may not enter trades on behalf of their own account or any account over which they have control or in which they have a beneficial interest if, in KAR's judgment, such trade would cause them or any such account to benefit from any trade entered into or being contemplated on behalf of any client of KAR or cause the accounts of any such clients to be harmed.

KAR allows employees to purchase or sell securities held in the Model Portfolios or securities that are on the Focus List, subject to either the de minimis Rule or pre-clearance requirements. The de minimis Rule includes securities in KAR's Model Portfolios and Focus Lists provided that the securities meet the market capitalization requirements. Employees may purchase large cap securities within the following parameters: no more than 500 shares in an issuer with a market capitalization of \$5 billion or greater, in a one-month period. These purchases must be held for 60 days, are subject to quarterly reporting requirements, however these purchases do not require pre-clearance. Employees may sell large cap securities within the following parameters: no more than 500 shares in an issuer with a market capitalization of \$5 billion or greater, in a one-month period. These sales are subject to quarterly reporting requirements; however these sales are not subject to pre-clearance requirements.

In addition to purchases or sales of large cap securities under the de minimis Rule, employees may purchase or sell positions in securities that are held in the Model Portfolios or Focus Lists. These

securities are subject to the following pre-clearance requirements: No employees may purchase or sell shares of a security that KAR is purchasing or selling for any Client Accounts pursuant to a Trading Program within five business days before or after the completion of the Trading Program, no employees may sell or purchase any security that KAR is purchasing or selling for any Client accounts other than as result of a Trading Program, on any given day until all orders for such purchases or sales have been completed, no employee may sell any security until at least 60 days after it has been purchased. Exceptions may be granted if approved by two members of the Investment Compliance Committee. Because such trades are permitted without price constraints, an employee may receive a better price than a client on a like trade on the same day. Because employee trades have historically been relatively small share amounts, they are not expected to have any material market impact. If KAR believes that an employee trade may affect the market, it reserves the discretion to decline pre-clearance. The purchase and sale of Virtus Mutual Funds advised by KAR are subject to pre-clearance requirements. The Virtus Mutual Funds advised by KAR must be held at least 60 days after purchase, unless an employee receives prior written approval from at least two members of the Investment Compliance Committee

Employees should not accept gifts or other gratuities from clients or individuals seeking to conduct business with Kayne Anderson Rudnick Investment Management without prior authorization from the Chief Compliance Officer or the Chief Operating Officer. However, no authorization is required for gifts valued at less than \$175.00.

Employees may, under certain circumstances, be granted permission to serve as directors, trustees, or officers of outside organizations. Employees must receive approval from the Chief Operating Officer or the Chief Compliance Officer.

Employees are not to divulge or act upon any material, non-public information, as defined under relevant securities laws and in KAR's Insider Trading Policy.

REPORTING AND COMPLIANCE PROCEDURES

All employees direct their broker(s) to supply to the KAR's Compliance Department duplicate confirmations and periodic account statements for each employee's personal account. Employees are required to report all personal security transactions on a quarterly basis, to submit a security holdings report on an annual basis, and to certify annually that they have read and understand the Code.

Violations of the Code result in sanctions as deemed appropriate by the Investment Compliance Committee. Sanctions can include but are not limited to a letter of censure, monetary fines, temporary or permanent suspension of trading for any employee or related accounts, suspension, termination of employment, disgorging of any profits made, or any other sanction deemed appropriate by the Investment Compliance Committee.

A complete copy of KAR's current Code of Ethics is available 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 Judith Ridder, Chief Compliance Officer, at (310) 712-2909.

CONDITIONS FOR MANAGING ACCOUNTS

- ◆ **KAR manages investment advisory accounts and imposes a minimum dollar value of assets or other conditions for starting or maintaining an account.**

For its direct fee accounts, KAR generally requires a minimum dollar amount of assets under management of \$1,000,000. Under certain circumstances, KAR may treat affiliated direct fee accounts (e.g., accounts of different family members or multiple accounts for the benefit of the same person or persons) as one account for purposes of satisfying its minimum size requirements. Direct fee accounts through broker-directed programs may have lower minimum through broker-directed programs may have lower minimum investment requirements.

KAR reserves the right to make exceptions to these minimums for normal business reasons and considerations.

For wrap accounts, the minimum amount of assets range from \$50,000 to \$500,000, depending on the wrap program and investment strategy of the account.

For KAR's pooled accounts, participants must be accredited investors.

REVIEW OF ACCOUNTS

A record-keeping account is established and maintained on KAR's portfolio accounting system for each managed client account, with the exception of sub-advisory accounts as explained below. 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 KAR serves as investment sub-adviser, the program sponsor maintains, and provides KAR with electronic access to the information contained in client record-keeping accounts.

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 may be weighted differently or hold securities not in the model portfolio. Once initially invested, the account is continuously monitored for any drift or variance from the model portfolio weightings and client guidelines. This process is conducted by our portfolio management associates, wrap traders and portfolio managers. The number of accounts reviewed by each person varies based on the type of account.

Generally, for our direct fee accounts, we are available to meet with the client at least once a year, in some cases as often as quarterly if requested by the client. Account reviews are conducted with clients by our client service representatives, often with the assistance of our portfolio managers. Wrap fee accounts (both advisory and sub-advisory) have access to the same personnel through their respective program sponsors or they may contact us directly at any time. Direct accounts are provided (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 sponsors preference, generally wrap program

accounts (other than sub-advisory accounts) are provided quarterly reports identifying holdings and, for some programs, performance.

INVESTMENT OR BROKERAGE DISCRETION

- ◆ **KAR has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, amount of securities to be bought or sold, broker or dealer to be used, and commission rates paid. In addition, KAR may suggest brokers to its clients.**

INVESTMENT DISCRETION

KAR has full discretion to buy and sell securities without prior client approval under its investment advisory contract with the client. (KAR holds a limited power of attorney to act without prior consultation). KAR exercises its investment discretion consistent with its investment philosophy, as well as any investment guidelines or restrictions imposed by client and accepted by KAR. KAR does not maintain actual custody of any client assets. KAR 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.

BROKERAGE DISCRETION

Other than to satisfy its obligation to seek best execution, KAR 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 KAR to use a specific broker-dealer.

KAR accepts direction from clients regarding the brokers to be used for such client's accounts. Clients may 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 KAR may have arrangements to receive investment related research products or services provided by the same intermediary, which are separate from the client's direction to use a particular broker to execute either all or part of the brokerage transactions from their accounts. Clients must be aware that, in so doing, they may adversely affect KAR's ability to, among other things, obtain, investment related research, volume discounts on bunched orders and/or seek to achieve best execution.

Those direct fee clients who seek advice from KAR on broker selection have many options available to them. These options include discounted brokerage firms, such as Charles Schwab and Company ("Schwab") and Fidelity Investments ("Fidelity"), and clients may also choose to become a retail client of the many other unaffiliated brokerage firms with which KAR conducts business. The institutional-level commission rates (and the minimum ticket charges) charged by the discount firms are generally more favorable than retail rates normally charged by full service brokerage firms. However, full service firms may 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 KAR, or at any other time.

Clients may also establish a bank custodial account and authorize KAR to use any broker-dealer with whom KAR has negotiated institutional-level commission rates. These bank custodial accounts

may provide access to other bank services of value to the client. In addition, these “free-trading” accounts provide KAR with a level of flexibility that benefits the client’s ability to participate in block trades. While the commission rates available to free-trading accounts at other broker-dealers are competitive, such broker-dealers typically have higher minimum clearance charges. 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.

To reduce transaction costs and promote trading efficiency, KAR may engage in interaccount or cross transactions with eligible advisory accounts and will comply with the applicable disclosure and consent requirements associated with such transactions under the Investment Advisers Act of 1940.

When executing client transactions with unaffiliated broker-dealers, KAR 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, such as execution capabilities and research, custodial and other services expected to enhance the general portfolio management capabilities of KAR, the size of the transaction, the difficulty of execution, the operational facilities of the broker-dealer, the risk in positioning a block of securities, the quality of the overall brokerage and research services provided, and the value of an ongoing relationship with such broker-dealers, without having to demonstrate that such factors are of a direct benefit to the client.

KAR is aware of its fiduciary obligation to seek the “best execution” of client transactions. Best execution is a process that entails the efficient placement of orders, clearance, settlement and overall execution quality as well as the price obtained in the transaction. Where KAR believes that it can cause trades to be effected more efficiently for its clients, KAR attempts to trade away from the designated broker-dealer, whether directed or non-directed. A step-out trade is one in which KAR places the order for a transaction for one or more client accounts with a broker (the “Step-out Broker”), other than the broker that the client has directed KAR to utilize (the “Directed Broker”). The Step-out broker reports a net price, which may include a mark-up for executing the transaction. The Directed Broker receives the compensation, if any, shown on the confirmation. This compensation is at whatever commission rate or wrap fee the client has negotiated. Thus, the clients that participate in a step-out transaction may pay different transaction costs. The Directed Broker receives the agreed upon commission or wrap fee and the client obtains the execution at a favorable price. A wrap client may incur an additional commission cost if a trade is made away from their wrap sponsor. For fixed income trades, the commission is not shown on the trade confirmation, but is reflected in the negotiated price of the bond. KAR 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 is to act in the best interest of its clients. Directed brokerage clients that do not allow KAR to participate in step-out trades may pay a higher cost than Clients that allow KAR to participate in step-out trades. Accounts that participate in step-out trades may incur additional transaction costs.

In addition, as part of its effort to obtain best execution, KAR may aggregate orders, or “block trade,” for several clients. Each client that participates in a block trade receives the average share price and, subject to individually negotiated commission and/or fee

arrangements, a pro rata portion of the transaction cost. Because clients have different brokerage relationships, some client accounts may not be eligible to participate in block trades.

When directed trades for selected accounts are placed through a brokerage firm other than that which is executing the block trade, those trades may trail the complete block-trading program. The prices of those securities may have already been impacted by the prior block trade, so that the cost or sales price of the securities in the directed account will not necessarily be the same as those executed as part of the block. Therefore, performance of the directed account may differ from that of the non-directed accounts.

Clients should be aware that some types of purchase or sale transactions cannot be included in aggregated orders. For instance, trades resulting from the opening and closing of accounts, from contributions or withdrawals from existing accounts, or accounts with highly particularized investment policies or restrictions, often must be executed on an individual basis rather than aggregated with other trades. In such cases, clients may not receive as favorable executions as they might otherwise receive from aggregated orders.

In cases where a block trade is partially filled, KAR uses a random method of allocating those shares to the client accounts from which the aggregated order was created. This random methodology is computer driven and fills client accounts with their respective portions of the aggregated order one by one until no shares remain of the block. As a result, some accounts do not receive any shares from the partially filled order. Subject to the affect of price movements on KAR’s model portfolio, KAR in most cases will continue to purchase shares, in additional aggregated orders if possible, to obtain shares for the accounts not previously filled. Over time, this random methodology statistically balances the impact of partial fills among clients.

KAR causes trades to be effected through many broker-dealers that have different operating procedures for different clients requiring varying levels of administrative attention. This means that orders generated as a result of buy and sell programs generally are not communicated at the same time. In some cases, particularly those involving small-cap securities, such programs may require an extended period to complete. KAR rotates the sequence in which orders are communicated to the various broker-dealers. This rotation is computer-driven thus providing equal treatment to clients.

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

Fixed Income trade allocations are usually determined prior to 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.

Securities for fixed income discretionary accounts are traded either through competitive bids/offers, by comparison of bids/offers on electronic systems, or through comparison of price level

with levels seen in electronic market systems. 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 (e.g. 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.

With respect to its investment company clients, KAR generally has full authority to determine the broker-dealers through which transactions for the investment company's account are executed. KAR generally selects such broker-dealers, and determines the commission rates payable to such brokers-dealers, in the manner described above.

SOFT DOLLARS

Subject to applicable law and regulation, KAR directs brokerage commissions for research and brokerage services. At least annually, KAR considers the amount and nature of research and brokerage services provided by the brokers, as well as the extent to which such services are relied upon. The actual allocation of brokerage business may vary from year to year, depending on KAR's evaluation of all applicable considerations.

Section 28(e) of the Securities Exchange Act of 1934, as amended, provides that a person who exercises investment discretion with respect to an account, such as KAR, is not deemed to have acted unlawfully or to have breached any fiduciary duty under federal or state law solely by causing the account to pay more than the lowest available commission, if such person determines in good faith that the amount of commission is reasonable in relation to the value of the brokerage and research services provided.

Subject to Section 28(e) KAR may 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. KAR believes that it is important to its investment decision making processes to have access to independent research. Research furnished by brokers may be used to service any or all of KAR's clients and may be used in connection with accounts other than those making the payment to the broker providing the research, as permitted by Section 28(e). Only brokerage commissions from certain client's accounts are used to pay for the research services furnished by brokers. KAR may use these research services to service all of its accounts and not just the account 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 KAR's research obligations may not benefit in any way from this research.

Brokerage and research services provided by brokers falling within the Section 28(e) safe harbor may include, but are not limited to,

providing 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 may be provided in the form of access to various computer-generated data.

In some cases, research services are generated by third parties but are provided to KAR by or through brokers. The following describes the primary products and services currently provided through soft dollar arrangements. The ratio of commissions necessary to pay for these services (soft dollar ratios) is 1.25:1.

Donaldson & Co.

- *Bloomberg*
- *Bridge/Reuters*
- *Reuters Knowledge*

KAR has established a Best Execution Committee, consisting of members from Administration, Trading, Portfolio Management and Compliance. The Best Execution Committee reports to the Investment Compliance Committee. The Best Execution Committee generally meets quarterly to review brokerage allocation activity of the firm, to identify the quality of execution and settlement services provided, and the value to client portfolios of the purchased product or service. All soft dollar arrangements are subject to the review and concurrence of the Investment Compliance Committee.

SUGGESTION OF BROKERS

KAR is generally required by wrap program sponsors to direct trades for client accounts in such programs to such sponsors or their affiliates. In addition, a client may instruct KAR to use a specified broker-dealer for such client's account, although KAR 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 generally be aware that, where it directs KAR to use a specific broker-dealer: (1) a higher commission rate (or fees in the case of wrap program accounts) may be paid by such client, in part because of additional services which may be available from such broker-dealer as well as KAR'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.

A client who directs KAR 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 KAR) should consider whether commissions, expenses, execution, clearance and settlement charges, and custodial fees, if applicable, is comparable to those otherwise obtainable by KAR.

When KAR goes directly to the market –maker to execute over the counter transactions, the execution of such transactions in this manner will typically result in two separate fees; one fee paid to the agent broker and a spread built into the price offered by the market maker.

KAR may benefit by receiving new client referrals from Schwab, Fidelity, or other broker-dealers who earn commissions on trades for accounts of existing clients of KAR, and, as a result, a conflict may arise between KAR's interest in such referrals and its obligation to seek the best execution of client trades.

ADDITIONAL COMPENSATION

- ◆ **KAR, or a related person, may be paid cash by and may receive economic benefit from a non-client in connection with giving advice to clients.**
- ◆ **KAR does have arrangements in which we compensate others for client referrals.**

ECONOMIC BENEFIT FROM NON-CLIENT

Jeannine Vanian, COO of Kayne Anderson Rudnick Investment Management, serves on the Fidelity RIA Advisor Council. Kayne Anderson Rudnick Investment Management may recommend that clients establish brokerage accounts with Fidelity Investment to maintain custody of clients' assets and effect trades for their accounts. The Council consists of approximately 20 representatives of independent investment advisory firms who have been invited by Fidelity Investment's management to participate in meetings and discussions of Fidelity Investment's Service for independent investment advisors and their clients. Council members enter non-disclosure agreements with Fidelity Investments under which they agree not to disclose confidential information shared with them. The Council meets in person approximately twice per year and has periodic conference calls scheduled as needed. Council members are not compensated by Fidelity Investments for their service, but Fidelity does pay for or reimburse council members' travel, lodging, meals, and other incidental expenses incurred in attending Council Meetings.

CLIENT REFERRAL COMPENSATION

KAR maintains contractual agreements with unaffiliated parties who refer clients to KAR for compensation. Such referral sources may be registered investment advisers. All referral agreements are made in writing pursuant to Rule 206(4)-3 of the Investment Advisers Act of 1940. KAR has entered into a solicitation agreement with Allan Rudnick, a founder of Kayne Anderson Rudnick, who refers clients to KAR for compensation. This referral agreement is made in writing pursuant to Rule 206(4)-3 of the Investment Advisers Act of 1940. Additionally, KAR has entered into a cross solicitation agreement with Kayne Anderson Capital Advisors, L.P., a former affiliate, whereby they agree to engage each other to solicit investment advisory business. This referral agreement is made in writing pursuant to Rule 206(4)-3 of the Investment Advisers Act of 1940. While the specific terms of each agreement may differ, the referral source typically receives a percentage of the management fees received by KAR from accounts referred by the referral source. Referral source compensation is not a factor in determining, nor does it adversely affect, the fee KAR charges for its investment management services .

As a condition of a wrap program, the wrap sponsor may be directly or indirectly registered as an investment adviser under the Investment Advisers Act of 1940. Such wrap sponsors may 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, KAR could be deemed to be sharing its fees with another investment firm.

KAR also pays recordkeeping service fees to intermediaries who sponsor platforms through which their clients may purchase shares in Virtus Mutual Funds. These fees are based on a percentage of assets received and therefore could be deemed to be a management fee-sharing arrangement as well.

CANADIAN REGISTRATION

ONTARIO

In addition to being registered with the United States Securities and Exchange Commission, KAR is also registered with the Ontario Securities Commission in Ontario, Canada. Because of the type of registration, KAR is not fully subject to the requirements of the Ontario Securities Act (the "Act") and the regulations hereunder concerning proficiency, capital, insurance, record keeping, segregation of funds and securities and statements of account and portfolio. KAR is a resident of the United States and there may be difficulty enforcing any legal rights a Canadian client may have against KAR since KAR resides outside of Canada and all of its assets are situated outside of Canada. The name and address of the agent for service of process in Ontario appointed by the Company is: Torys LLP, Attention Joanne Barrett, Suite 3000, 79 Wellington St. W., Box 270, TD Centre, Toronto, Ontario, M5K 1N2.

ALBERTA

KAR agrees that the laws of the Province of Alberta apply to any matter that may arise between KAR and the Province of Alberta. KAR agrees to submit and attorn to the jurisdiction of the courts of the Province of Alberta with respect to any disputes which may arise out of our actions or conduct in relation to account(s) notwithstanding any provision to the contrary in any contract, agreement or document executed at the time the account is opened or at any time thereafter. KAR's address for service of legal proceedings in Alberta is: Lawson Lundell, Attention: Jerrold Schramm, Suite 3700 205-5th Avenue S.W. Bow Valley, Square 2 Calgary, Alberta T2P 2V7.

MANITOBA

KAR agrees that the laws of the Province of Manitoba apply to any matter that may arise between KAR and the Province of Manitoba. KAR agrees to submit and attorn to the jurisdiction of the courts of the Province of Manitoba with respect to any disputes which may arise out of our actions or conduct in relation account(s) notwithstanding any provision to the contrary in any contract, agreement or document executed at the time the account is opened or at any time thereafter.

You should be aware that, because Adviser does not have a place of business in Manitoba, you may have difficulty in enforcing any legal rights you have against us.

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, KAR may also receive 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 KAR does not hold securities on behalf of its clients, KAR does not send any additional notification 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, KAR generally cannot 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, and not KAR is the owner/beneficiary of the securities that KAR purchases in a client’s account, and (2) KAR does not have any knowledge of whether or not the client purchased the security in any account not managed by KAR, KAR cannot automatically file a claim on the client’s behalf in any class action. Generally, the client will be asked to contact their custodian for transaction information, however, if the client requests additional assistance, KAR provides the client with any transaction information pertaining to the client’s account that may be helpful and/or needed in order for the client to file a proof of claim in a class action.

PRIVACY NOTICE

Kayne Anderson Rudnick Investment Management, LLC collects nonpublic information about you from the following sources:

- Information we receive about you on applications or other forms;
- Information you give us orally; and
- Information about your transactions with us or others.

We do not disclose any nonpublic personal information about our customers or former customers without the customer’s authorization, except as permitted by law or in response to inquires from governmental authorities. We restrict access to your personal and account information to those personnel who need to know that information to provide products and services to you. We also may disclose that information to unaffiliated third parties (such as to brokers or custodians) only as permitted by law and only as needed for us to provide agreed services to you. We maintain physical, electronic, and procedural safeguards to guard your nonpublic personal information. Email is retained and subject to review.

SUMMARY OF PROXY VOTING POLICY

KayneAndersonRudnickInvestmentManagement,LLC acknowledges its fiduciary responsibility to vote proxies in a manner that ensures to the exclusive benefit of the underlying participants and beneficiaries, while using the care, skill, and diligence that a prudent person acting in a like capacity and familiar with such matters would use under the circumstances then prevailing. 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 accretion 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. KAR has responsibility for voting proxies. To assist in analyzing proxies, KAR 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. KAR fully reviews and approves the ISS Proxy Voting Guidelines and follows their recommendations on most issues brought to a shareholder vote. In special circumstances, where a KAR research analyst or portfolio manager believes that any ISS recommendation would be to the detriment of our investment clients, KAR will override an ISS recommendation. Two members of the Investment Compliance Committee can approve an override.
3. Absent any special circumstance, the Proxy Voting Guidelines are followed when voting proxies.
4. KAR may occasionally be 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. KAR and its employees may 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 will promptly report such conflict to the Chief Compliance Officer. Conflicts of interest are handled in various ways depending on the type and materiality.

¹The Proxy Voting Policy and Guidelines are posted on the public section of the firm’s website, <http://www.kayne.com>. For a copy of the policy or guidelines and inquiries regarding how a specific proxy proposal was voted, please contact Judy Ridder at 310-712-2909.