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Kayne Anderson Rudnick Investment Management

1800 Avenue of the Stars, Second Floor

Los Angeles, CA 90067

(877) 308-6988

www.kayne.com

March 15, 2017

This 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 (877) 308-6988 and/or info@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.

Item 2 – Material Changes

In the past, we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, you will receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year, which is 12/31. 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.

You can request our Brochure by contacting Judith Ridder at 310.712.2909 or jridder@kayne.com. Our Brochure is available on our website, www.kayne.com, and is also free of charge upon request.

Additional information about Kayne Anderson Rudnick is also available via the SEC's website, www.adviserinfo.sec.gov. The SEC's website also provides information about any persons affiliated with Kayne Anderson Rudnick who are registered, or are required to be registered, as investment adviser representatives of Kayne Anderson Rudnick.

We have not made any material changes to our ADV, Part 2A since our last update January 1, 2016, although other changes not deemed material have been made.

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Item 4 – Advisory Business

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

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, closed-end funds, UCITS, collective investment trusts, registered investment advisers, individuals, trusts, and estates. These services are tailored to the needs and investment guidelines of each client. Kayne Anderson Rudnick provides investment advisory services for accounts either (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.

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, and closed-end funds. Kayne Anderson Rudnick manages these accounts subject to each client’s investment guidelines. Kayne Anderson Rudnick is advisor to the Kayne Anderson Rudnick Collective Investment Trust. SEI Trust Company is the Trustee of the Trust, and SEI Institutional Transfer Agent Inc. serves as transfer agent for the Trust.

Advisory Services – Mutual Funds

Kayne Anderson Rudnick provides investment management services as a sub-adviser under a sub-advisory agreement with Virtus Investment Advisers, an affiliate, to the following portfolios:

Virtus Small-Cap Core Fund, Virtus Small-Cap Sustainable Growth Fund, Virtus Quality Small-Cap Fund, Virtus Mid-Cap Core Funds, Virtus Global Quality Dividend Fund, Virtus Small-Cap Growth Series, Virtus Small-Cap Value Series, Virtus Strategic Growth Fund, Virtus Mid-Cap Growth Fund, Virtus International Small-Cap Fund, Virtus Capital Growth Series, Virtus Emerging Markets Small Cap Fund, Virtus Strategic Allocation Fund (Equity Portion), Virtus Tactical Allocation Fund (Equity Portion), Virtus Global Dividend & Income Fund Inc, and Virtus Strategic Allocation Series (Equity Portion). These Funds are affiliated with Kayne Anderson Rudnick.

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 UCIT 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.

Kayne Anderson Rudnick, in conjunction with its parent company, Virtus Investment Partners, has established the KAR Long/Short Fund, LLC. The total assets under management of this pooled account is less than 1/10th of one percent of Kayne Anderson Rudnick’s total assets under management.

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 is available for direct telephone conversations with the wrap sponsors.

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. 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.

Wrap account clients generally only invest in Kayne Anderson Rudnick’s model 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, wrap and non-wrap clients. Deviations from the model portfolio can occur for various reasons including to accommodate specific investment guidelines of an individual client.

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. Based upon the amount of portfolio activity in the account and the value of custodial and portfolio monitoring services, the single fee can 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 – Unified Managed Accounts (UMA)

Kayne Anderson Rudnick provides investment advisory services, as sub-adviser or model provider, to investment advisers that seek specific securities-related advice and recommendations. The advice and recommendations are provided through the development of UMAs. 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. 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 participates in a number of arrangements where it receives a UMA and will exercise investment discretion. It is at Kayne Anderson Rudnick's discretion whether or not and to what extent to implement the UMA or each recommendation. Kayne Anderson Rudnick utilizes these UMAs primarily in its Wealth Advisors division.

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 often utilizes strategic third-party business partners to provide a customized solution in areas such as estate planning, tax advisory services and risk management services.

These services include:

- **Investment Advisory:** Through an extensive interview process, KARWA assists each client in developing long-term goals and objective with the capital managed by the firm. KARWA designs a customized portfolio solution for each client which reflects a combination of each clients' long-term objectives and the firms' 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 for our clients.
- **Financial Planning:** Often the first point of engagement with our clients, the firm provides a full suite of 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.
- **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-Private Clients:** The firm provides a full suite of consulting services to non-profit organizations, such as endowments, foundations and corporate retirement plans, linked to our private 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 trading cost analysis and

oversight, 6) portfolio monitoring and reporting, 7) consolidated performance reporting, and 8) quarterly reporting including macro-economic and capital markets updates.

KARWA Wealth Advisory Client

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 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, structured notes, concentrated stock hedging service, or a combination of the aforementioned.

KARWA Investment Advisory Client

For each KARWA Investment Advisory Client, KARWA creates a portfolio generally consisting of one of the following: Individually managed securities, mutual funds managed by Kayne Anderson Rudnick, mutual funds affiliated with Kayne Anderson Rudnick, non-affiliated mutual funds, exchange traded funds, limited partnerships, and structured notes.

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. As an accommodation to the client on a best efforts basis, Kayne Anderson Rudnick trades these securities.

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, securities traded over-the-counter, 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.

Assets Under Management

As of December 31, 2016, the total assets under management amounted to \$12,775,162,574. Approximately \$10,720,302,256 was managed on a discretionary basis and \$2,054,860,318 was managed on a non-discretionary basis.

Item 5 – Fees and Compensation

This section describes Kayne Anderson Rudnick's basic fee schedules, however, fees can be negotiable where special circumstances prevail, and arrangements with any particular client can vary. Kayne Anderson Rudnick can group multiple accounts of one client relationship together for purposes of calculating the fee, or

Kayne Anderson Rudnick may choose not to charge a fee to small accounts of a client because of the fee the client is paying on the total relationship. Kayne Anderson Rudnick reserves the right to negotiate fees with clients, and may charge higher or lower fees than those described. Kayne Anderson Rudnick 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 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 client accounts. Accounts are normally charged a management fee based on the amount of assets under management. 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 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 may 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. A termination fee may be applicable, as discussed in specific fee schedules.

Kayne Anderson Rudnick's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients incur certain charges imposed by custodians, brokers, third-party investments and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, 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 bear 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 may introduce 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 are \$10 million.

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

Advisory Fees – Collective Investment Trust

Kayne Anderson Rudnick will generally receive 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 generally receives an annual management fee ranging from 0.375% to 0.60% (37.5 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 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, Kayne Anderson Rudnick'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 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 generally 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 when Kayne Anderson Rudnick serves as a wrap investment sub-adviser by the wrap sponsor generally 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 generally 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 – Private Clients

KARWA Wealth Advisory Client

Kayne Anderson Rudnick Wealth Advisors – Wealth Advisory Client Fee Schedule

Minimum relationship size: \$1 million

Minimum Fee: The minimum annual fee per relationship is \$8,000. Relationships below the annual minimum will be billed \$2,000 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 Fee:

Separately Managed Accounts are defined as individually managed securities in strategies managed by the Adviser or individually managed securities in strategies sub-advised by the Adviser.

For clients with separately managed accounts, an additional fee of 0.30% (30 basis points) per annum will be assessed on those assets, with the exception of Kayne Anderson Rudnick Small Cap Quality Select separately managed accounts, which will be charged an additional fee of 1.25% (125 basis points) per annum on those assets. The Client receives a combined invoice for the services provided: (1) the Wealth Advisory Service fee invoice, and (2) for clients who are invested in separately managed accounts, a Separately Managed Account fee invoice.

Proprietary and Affiliated Mutual Fund Fees:

Accounts may be invested in mutual funds managed by the Adviser, such as, Virtus Small-Cap Core Fund, Virtus Small-Cap Sustainable Growth Fund, Virtus Quality Small-Cap Fund, Virtus Mid-Cap Core Fund, Virtus Global Quality Dividend Fund, Virtus Small-Cap Growth Series, Virtus Small-Cap Value Series, Virtus Strategic Growth Fund, Virtus Mid Cap Growth Fund, Virtus International Small Cap Fund, Virtus Capital Growth Series, Virtus Emerging Markets Small Cap Fund, Virtus Strategic Allocation Fund (Equity Portion), Virtus Tactical Allocation Fund (Equity Portion), Virtus Global Dividend & Income Fund Inc, and Virtus Strategic Allocation Series (Equity Portion). If mutual funds managed by the Adviser are utilized, the Adviser may receive a management fee for its management of the mutual funds, in addition to its wealth advisory service fee. The Client consents to the use of affiliated mutual funds. The Client may revoke in writing the consent of the use of mutual funds advised by the Adviser at any time. The Adviser may invest a portion of the Account in one or more mutual funds affiliated with the Adviser. The Adviser will not receive an administrative fee from Virtus Distributors, LLC from mutual funds affiliated with Adviser.

Affiliated Mutual Fund Fees

The Adviser does not receive any type of fee from Virtus Distributors, Inc. for assets invested in affiliated mutual funds.

Concentrated Stock Hedging Service Fee

Clients investing in only the concentrated stock hedging service will be charged a 1.00% (100 basis points) service fee per annum. Minimum account size for Clients investing only in the concentrated stock hedging service is \$1 million. For clients that establish a wealth advisory relationship which includes an allocation to the concentrated stock 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 concentrated stock hedging service. For clients that establish both a wealth advisory relationship and an allocation to the concentrated stock hedging service, the client will be charged 0.75% (75 basis points) per annum on the assets utilizing the concentrated stock hedging service. The concentrated stock hedging service will not be included in the calculation of break points on the Wealth Advisor Service Fee.

Concentrated Stock Exchange Fund Service Fee

Clients investing in only the Exchange Fund will be charged a 1.00% (100 basis points) service fee per annum. 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. For clients that establish both a wealth advisory relationship and an allocation to Exchange Funds, the client will be charged 0.50% (50 basis points) per annum on the assets in the Exchange Fund. The Exchange Fund will not be included in the calculation of break points on the Wealth Advisor Service Fee.

KARWA Investment Advisory Client

Kayne Anderson Rudnick Wealth Advisors – Investment Advisory Fee Schedule

Minimum relationship size: \$1 million

Minimum Fee: The minimum annual fee per relationship is \$8,000. Relationships below the annual minimum will be billed \$2,000 on a quarterly basis.

Equity*
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

Fixed Income
0.50% on the first \$5 million
0.35% on the next \$5 million
0.25% on the balance

Cash Management

0.25% for all asset amounts

*The fee schedule for Kayne Anderson Rudnick Small Cap Quality Select is 1.25% on all asset amounts.

Advisory Fees – Other

Kayne Anderson Rudnick, at its discretion, charges 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.

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

Kayne Anderson Rudnick does not currently charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). Performance-based fee arrangements would only be entered into with qualified clients, subject to individual negotiation. Any 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. Kayne Anderson Rudnick does not currently engage in side-by-side management.

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, 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.

The minimum size of an institutional account is \$5 million with the exception of the International Small Cap, Emerging Markets Small Cap and Global Small Cap which is \$10 million. The minimum size of a private 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.

Once a company is identified for further research, the firm’s research process begins with an analysis of the company’s financial statements. In terms of the balance sheet, Kayne Anderson Rudnick looks for companies with high intellectual capacity and low capital intensity. This typically results in low debt and high free cash flow. In terms of the income statement, Kayne Anderson Rudnick looks for companies with lower overall fixed costs as this leads to earnings that are more durable and stable. In terms of the cash flow statement, Kayne Anderson Rudnick looks for companies with abundant cash which increases management’s ability to focus on shareholders.

The investment team also thoroughly and consistently reviews regulatory filings, press releases, and industry data. They speak with competitors and customers. They conduct comprehensive interviews with management and evaluate their long-term strategic decision-making rather than short-term quarterly earnings. They assess their ability to effectively manage and allocate the business’ capital.

The firm’s valuation analysis determines the current and potential value of the business. Kayne Anderson Rudnick utilizes a variety of proprietary valuation models to establish the value of each company under base, best, and worst-case scenarios. Valuation is determined on an absolute basis as well as relative to other available opportunities.

Kayne Anderson Rudnick relies primarily on internally generated research when making investment decisions. Kayne Anderson Rudnick’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, industry conferences, and where appropriate and feasible, company visits and conversations with suppliers and competitors. In addition, trade publications and statistical material are furnished by outside vendors. Kayne Anderson Rudnick also considers research furnished by broker-dealers and other industry members.

Kayne Anderson Rudnick invests principally in “traditional” equity securities (U.S. common stocks, foreign stocks (ordinary and ADR), 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. 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-advisors and third-party managers. In reviewing investment opportunities, Kayne Anderson Rudnick conducts due diligence and research on the sub-advisors and third-party managers to satisfy itself as to the suitability of the third-party manager and sub-advisor. Kayne Anderson Rudnick also

invests in an array of high-quality, fixed-income securities that 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.

The Risks of Investing

Clients should understand that all investments made pursuant to such strategies involve risk of loss, 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 may lose value. Past performance of client accounts is not indicative of future performance. The strategies described below 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 advisors 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 may be subject to additional and different risk factors not discussed herein.

The value of your 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 your 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:** Your 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:** Your 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, and regulatory or other factors.
- **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.
- **Liquidity Risk:** Liquidity risk exists when particular investments are difficult to purchase or sell, possibly preventing us from selling out of such illiquid securities at an advantageous price.
- **Emerging Market Investing Risk:** The risk that prices of emerging markets securities will be more volatile, or will be more greatly affected by negative conditions, than those of their counterparts in more established foreign markets.
- **Market Direction Risk:** A portfolio will typically hold both long and short positions, an investment in the portfolio will involve market risks associated with different types of investment decisions than 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 may 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 issuers a limited number of issuers, industries, sectors, countries, states or regions subjects an account to conditions that may adversely impact the area of concentration. In addition, concentration of investments of issuers located in a particular state subjects an account to government policies within that state. Similarly, a concentrated account may 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 may be invested in the securities of a limited number of issuers, an account may be more susceptible to any single, economic, political or regulatory occurrence than a more diversified portfolio.
- **Currency Rate Risk:** Because the foreign securities in which an account may invest generally trade in currencies other than the U.S. dollar, 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 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 such 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 to 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 may cause an account to lose proprietary information such as 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.

- **Sub-Advisor and Third-Party Managers Risk:** The success of an account's investment through sub-advisors 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-advisor 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-advisor 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 each other at any given time (as well as over the long term), so 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 Kayne Anderson Rudnick believes to have a competitive advantage, strong management, and low financial risk and to be able to grow over market cycles, 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 Kayne Anderson Rudnick believes to have a competitive advantage, strong management, and low financial risk and to be able 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 lower 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 Kayne Anderson Rudnick believes to have a competitive advantage, strong management, and low financial risk and is able 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 Kayne Anderson Rudnick believes to have a competitive advantage, strong management, low financial risk and are able to grow over market cycles.

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 Kayne Anderson Rudnick believes to have a competitive advantage, strong management, low financial risk and are able to grow over market cycles.

Small-Mid Cap Core:

This strategy pursues long-term capital appreciation in the small-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 under-valued relative to their future growth potential. The investment strategy emphasizes companies Kayne Anderson Rudnick believes to have a competitive advantage, strong management, and low financial risk and to be able to grow over market cycles, despite their discounted valuations.

Small-Mid Cap Quality Value:

This strategy pursues long-term capital appreciation in the small-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-mid cap value companies believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies Kayne Anderson Rudnick believes to have a competitive advantage, strong management, and low financial risk and to be able to grow over market cycles, despite their discounted 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 Kayne Anderson Rudnick believes to have a competitive advantage, strong management, and low financial risk and to be able to grow over market cycles, despite their discounted valuations.

Mid Cap Sustainable Growth:

This strategy pursues long-term capital appreciation in the mid-cap sector while seeking to provide a comparable risk profile to the index over a complete market cycle. 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 Kayne Anderson Rudnick believes to have a competitive advantage, strong management, and low financial risk and we seek to purchase these businesses at reasonable valuations.

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 Kayne Anderson Rudnick believes to have a competitive advantage, strong management, and low financial risk and to be able to grow over market cycles, despite their discounted valuations.

Large Cap Sustainable Growth:

This strategy pursues long-term capital appreciation in the large-cap sector while seeking to provide a comparable risk profile to the index over a complete market cycle. 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

Kayne Anderson Rudnick believes to have a competitive advantage, strong management, and low financial risk and we seek to purchase these businesses at reasonable valuations.

International Small Cap:

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 located globally excluding the United States that are believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies 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 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 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 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 that are believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies Kayne Anderson Rudnick believes to have a competitive advantage, strong management, and low financial risk that can grow over market.

Long/Short:

This strategy pursues long-term capital appreciation across U.S.-listed 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 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 Kayne Anderson Rudnick believes lack a competitive advantage, have deteriorating financial performance, and/or high financial risk.

All Cap Sustainable Growth:

This strategy pursues long-term capital appreciation across market capitalizations while seeking to provide a comparable risk profile to the total market over a complete market cycle. 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 Kayne Anderson Rudnick believes to have a competitive

advantage, strong management, and low financial risk and we seek to purchase these businesses at reasonable business valuations.

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 Kayne Anderson Rudnick believes to have a competitive advantage, strong management, low financial risk and which 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.

Arizona Municipal:

This strategy seeks current income free from federal state income taxes by investing in municipal bonds issued in the state of Arizona. The management team focuses on high-quality Arizona 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, 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. Kayne Anderson Rudnick has no disciplinary information to report.

Item 10 – Other Financial Industry Activities and Affiliations

Kayne Anderson Rudnick is wholly owned by Virtus Partners, Inc. ("VP"). Virtus Partners, Inc. is a legal entity and wholly owned subsidiary of Virtus Investment Partners, Inc. ("VRTS"). Kayne Anderson Rudnick is associated with investment companies offered by the Virtus family of funds, which are advised and sub- advised by both affiliated and non-affiliated investment advisors.

VP owns the following investment advisors:

1. Kayne Anderson Rudnick Investment Management, LLC, Registrant
2. Duff & Phelps Investment Management Co.
3. Euclid Advisors LLC
4. Zweig Advisers LLC
5. Newfleet Asset Management, Inc.
6. Virtus Alternative Investment Advisers, Inc.
7. Rampart Investment Management Company, LLC
8. Virtus Investment Advisers, Inc.
9. Virtus ETF Advisers, LLC
10. Virtus Retirement Investment Advisers, LLC

Virtus Alternative Investment Advisers is registered as a commodity pool operator. Management persons of KAR may be an associated person of the foregoing entity. VP also owns VP Distributors, LLC, 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 sub-advised by Kayne Anderson Rudnick. Certain Kayne Anderson Rudnick's employees maintain securities licenses with VP Distributors, LLC. Virtus Fund Services, LLC, an affiliate of KAR, serves as the administrator and transfer agent to certain funds for which KAR acts as a sub-advisor. ETF Distributors LLC, an affiliate of Virtus Investment Advisers, Inc., is a registered broker-dealer, which serves as the principal underwriter and distributor of the exchange traded funds advised by its affiliate Virtus ETF Advisers LLC.

In a variety of instances, Kayne Anderson Rudnick utilizes the personnel and/or services of one or more of its affiliates, and the affiliates utilize certain personnel and/or services of Kayne Anderson Rudnick in the performance of Kayne Anderson Rudnick's business including, without limitation, investment advice, portfolio execution and trading, back-office processing, accounting, reporting, and client servicing. Such utilization can take a variety of forms including dual employee or delegation arrangements, formal sub-advisory or servicing agreements, or other formal and informal arrangements among Registrants and its affiliates. In these circumstances, the registered affiliate with which the client has its investment management agreement remains responsible for the account within the framework of the Advisers Act and/or other applicable regulatory frameworks and the relevant investment management agreement and no additional fees are charged to the client for the affiliates' services except as set forth in the investment management agreement.

Virtus Investment Partners, Inc. (NASDAQ: VRTS) on December 16, 2016 announced it has entered into an agreement to acquire RidgeWorth Investments.

RidgeWorth's wholly owned affiliates are:

Seix Investment Advisors
Ceredex Value Advisors
Silvant Capital Management

RidgeWorth also has a minority ownership interest in Zevenbergen Capital Investments, a growth equity boutique. The transaction is expected to close mid-2017.

For specific wealth advisory clients, Kayne Anderson Rudnick may utilize the services of Newfleet Asset Management, Inc., a registered investment advisory firm and 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 adopted the Virtus Code of Conduct and Kayne Anderson Rudnick Code of Ethics for Personal Trading, which are designed to prevent and detect possible conflicts of interest with client trades. Compliance with these codes is a condition of employment. All of our employees must acknowledge their terms annually, or as amended. The following highlights some of the provisions of the Virtus Code of Conduct:

Virtus Code of Conduct

Commitment to Shareholders

- Conflicts of interest
- Insider trading and personal trading
- Market timing

Commitment to Customers

- Safeguarding assets
- Other market conduct
- Privacy

Commitment to Corporate Citizenship

- Complying with the legal and regulatory requirements
- Anti-money laundering
- Lobbying and political contributions

Commitment to Employees

- Equal opportunities
- Sexual harassment
- Workplace safety

Commitment to Ethics and Compliance

- Ethical decision-making
- Monitoring Code compliance
- Whistleblower protection

A complete Virtus Code of Conduct is available upon request.

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:

- 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 at the same time as the firm.
- 60 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 some 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 complies with both our and Virtus policies and applicable U.S. Federal and state securities laws and regulations.

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, under certain circumstances, can 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 Kayne Anderson Rudnick's Insider Trading Policy.

A complete copy of Kayne Anderson Rudnick'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.

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 and is paid advisory fees by these Funds. Under certain circumstances, Kayne Anderson Rudnick charges separate management fees on client assets which are invested in the Funds sub-advised by Kayne Anderson Rudnick. The management fee rates paid by the Funds can be different than the management fees that are charged on separately managed assets in like strategies.

Employees of Kayne Anderson Rudnick can establish accounts with Kayne Anderson Rudnick. These accounts are managed and administered consistent with non-employee client accounts. Kayne Anderson Rudnick manages investment accounts for its employees for no fee.

Employees may 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, all applicable contributions require preclearance and employees 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 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) execution capabilities and research, (2) custodial and other services expected to enhance the general portfolio management capabilities of Kayne Anderson Rudnick, (3) the size of the transaction, (4) the difficulty of execution, (5) the operational facilities of the broker-dealer, (6) the risk in positioning a block of securities, (7) the quality of the overall brokerage and research services provided, (8) the value of an ongoing relationship with such broker-dealers, and (9) access to liquidity.

Kayne Anderson Rudnick may utilize the services of a trade and/or settlement aggregator (an "Aggregator") when placing block orders. 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.

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 to guard against information leakage and minimize market impact during trading, and to obtain best execution. Kayne Anderson Rudnick may seek to work with one, or a limited number of brokers, that is not the sponsor’s broker who can access a wider variety of liquidity sources up to and including finding a natural counterparty. These firms may have particular industry expertise or may be 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 may benefit clients by allowing Kayne Anderson Rudnick to find liquidity and execute trades with natural buyers and sellers on terms more favorable than might otherwise be available in the market.

For directed brokerage accounts, where Kayne Anderson Rudnick has trading discretion over a client account, Kayne Anderson Rudnick will typically perform two types of trades for our clients. One type of trade is called a “portfolio model change” trade, which is the purchase or sale of securities for our portfolios in one or more of our investment strategies. By its nature, this trade will affect many clients at once. These trades are almost always executed through a “step-out transaction”, meaning that they are traded away from the client’s Sponsor Firm for execution purposes (described above). The second type of trade is referred to as an “incidental” trade. Incidental trading reflects individual activity in client’s account, such as initial investment positioning, rebalancing due to addition or withdrawals of cash or securities, account liquidation, or other account specific transactions such as client directed tax transactions. These trades will generally be executed as orders with client’s Sponsor Firm. Kayne Anderson Rudnick generally steps-out over 80 percent of directed brokerage trades.

Sponsors of sponsored accounts and dual contract accounts can also charge additional fees for any trades that are stepped out to another broker-dealer. Confirmations from Sponsors with respect to “step-out” or “trade away” trades in Sponsor accounts and dual contract 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 their 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 is 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 may pay a higher cost 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.

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, these trades may 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 with itself for execution. Likewise, it avoids the 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 participate in step out trades and are not able to participate in a block trade may be placed in a separate rotation so as to not disadvantage all other accounts.

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 “free-trading” 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.

With respect to its discretionary client accounts, Kayne Anderson Rudnick generally has full authority to determine the broker-dealers through which transactions for the discretionary client accounts are executed. Kayne Anderson Rudnick generally selects such broker-dealers and determines the commission rates payable to such brokers-dealers in the manner described above.

Directed Brokerage

Kayne Anderson Rudnick accepts direction from clients regarding the brokers to be used for such clients’ 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, Kayne Anderson Rudnick can have arrangements to receive investment-related research products or services provided by the same intermediary, 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. Clients must be aware that, in having a directed brokerage account, they may adversely affect Kayne Anderson Rudnick’s ability to, among other things, obtain volume discounts on bunched orders and/or seek to achieve best execution.

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 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 Kayne Anderson Rudnick conducts business. The 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 Kayne Anderson Rudnick, or at any other time.

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.

Trade Aggregation And Allocation

As part of its effort to obtain best execution, Kayne Anderson Rudnick aggregates orders, or a "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 can trail the complete block-trading program. The prices of those securities could 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 can 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. In such cases, clients may not receive as favorable executions as they might otherwise receive from aggregated orders.

In general, all accounts that participate in a block transaction participate on a percentage, pro rata, or other objective basis, as described below. Adjustments in the number of securities acquired for or sold by a particular account are made in order to meet certain requirements, e.g., to maintain round lots, to fill to specific percentages, to avoid crossing certain ownership thresholds. The standard allocation methodologies are as follows:

- a. Pro rata allocation will generally consist of weighted allocation based on account size whereby each account will receive a portion of the order based on the account's current market value relative to other account participating in the transaction. If no other allocation method is selected, allocation will be effected on a pro rata basis.
- b. Random by Account can be used in place of a pro rata allocation. In a percentage allocation, each client receives or achieves a specifically sized position, e.g., buying or selling to result in a 1% position based on the current market value of client's account or that portion of the account under the portfolio manager's management. In the case of a partial fill of a block transaction, a percentage allocation methodology will result in some account receiving no allocation. In such cases, a formal or informal (such as random selection) system will be employed to achieve rough equity in time.
- c. Other objective allocation methodologies can be utilized provided they are employed with general consistency and operate fairly, e.g. doubling up on the size of positions taken for certain accounts.
- d. Standard allocation methods can be modified when common sense dictates that strict adherence to the usual allocation is impractical or leads to inefficient or undesirable results.

Rotation is used with the standard allocation methodology to seek fair access for all groupings of clients over time to trading opportunities.

Fill rotation is used in conjunction with other allocation methodologies. "Fill rotation" simply means rotating the clients or groups of clients in order of fill so that, over time, all clients get a fair percentage of their transaction filled earlier in the sequence.

Rotation is an important principle in assuring that all accounts are treated equitably over time. It is an appropriate allocation tool when the transaction size is too limited to be effectively allocated among all accounts, when the price is too sensitive to trade for all client accounts, and in other situations where allocation across multiple clients may not be desirable.

Kayne Anderson Rudnick has designed its rotation process to provide all clients with fair access to trading. Kayne Anderson Rudnick maintains various trading groups for our clients. The trading groups are generally defined by business lines across the Firm, and can include institutional, wealth advisory, wrap and model only accounts. Kayne Anderson Rudnick rotates among the various trading groups on a random basis.

- Portfolio model changes trigger an internal set of trading instructions and program rotation, i.e., order of the trading groups. Not all investment strategies have accounts in all trading groups; therefore not all trading groups are in every program.
- Program rotation is determined by a random number algorithm generated within our systems.
- When Kayne Anderson Rudnick does not trade for a UMA/model sponsor program, Kayne Anderson Rudnick notifies the UMA/model sponsor program when they are up in the rotation.
- The program rotation is followed until all trades are complete.

As it is not in the best interest of our clients to have firms buying or selling the same security for the same portfolio at the same time, Kayne Anderson Rudnick needs to be aware of when each of our Model Only participants are trading our securities. If the Model Only participant wishes to be part of our trading rotation, they must begin trading when they are advised they are up the rotation and they must advise us immediately upon completion of the trade with shares traded and the price. This ensures that Kayne Anderson Rudnick will have seamless rotation within each of the trading programs. Trading throughout the day, not missing valuable liquidity and advantageous prices is paramount to achieving best execution, not only Kayne Anderson Rudnick clients but for the clients of our Model Only sponsors as well. If a Model Only sponsor does not abide by Kayne Anderson Rudnick's notification process, at Kayne Anderson Rudnick's discretion these Model Only sponsors will be placed last in the rotation.

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 of U.S. issuers. These equities can fluctuate more widely in price and be less liquid due to adverse market, economic, political,

regulatory or other factors. Trades on foreign exchanges may incur greater transactions charges than trades on the U.S. Exchanges.

Fixed-Income Practices

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, or through comparison of 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 (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.

Research And Other Soft Dollar Benefits

Subject to applicable law and regulation, Kayne Anderson Rudnick directs brokerage commissions for research and brokerage services. 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, to identify the quality of execution and settlement services provided, and the value to client portfolios of the purchased product or service. Soft dollar arrangements are reviewed by the Best Execution Committee and initially approved by the COO and CCO.

Subject to 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. Kayne Anderson Rudnick may have 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. Kayne Anderson Rudnick believes that it is important to its investment decision making processes to have access to independent research. Research furnished by brokers 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, as permitted by Section 28(e). Only brokerage commissions from certain 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 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 Kayne Anderson Rudnick's research obligations may not benefit in any way from this specific research.

Brokerage and research services provided by brokers falling within the Section 28(e) safe harbor can 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 can be provided in the form of access to various computer-generated data and access to 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. Kayne Anderson Rudnick has entered into Commission Sharing Arrangements ("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 may not be capable of executing Kayne Anderson Rudnick's orders as effectively as other brokers.

Suggestion Of Brokers

A client may instruct Kayne Anderson Rudnick to use a specified broker-dealer for such 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 generally 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) may be paid by such client, in part because of additional services which may 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.

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

Cross Transactions

Where appropriate, Kayne Anderson Rudnick can engage in inter-account transactions 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. To reduce transaction costs and promote trading efficiency for mutual fund clients, Kayne Anderson Rudnick can engage in inter-account transactions consistent with procedures adopted pursuant to Rule 17a-7 under the Investment Company Act of 1940.

Initial Public Offerings (IPO's)

From time to time, KAR may be offered securities in an initial public offering ("IPO") and KAR will determine in its sole discretion whether to accept any such offer. Generally, KAR does not accept offers to participate in IPOs. In the event that KAR accepts an offer of IPO securities, KAR's policy is to allocate the securities proportionally, based on asset value, among client portfolios for which the securities are deemed suitable. Suitability will be determined by KAR's Portfolio Administration team based on a number of factors, including but not limited to, investment goals, existing securities in the portfolio available cash and purchasing power, portfolio investment restrictions, and the subjective judgments of the portfolio managers. A small IPO offering may be allocated only to one client portfolio, if KAR determines in its sole discretion that allocation among more than one client portfolio would be inefficient. While generally based on objective criteria, KAR does not make IPO allocations based on strict, mathematical formulas. KAR's allocation of any specific IPO offering may not result in proportional allocation across all its client portfolios. KAR however, will treat all client portfolios fairly and will not give preferences to any particular client or type of clients when allocating IPOs.

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 resolved 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 which method is highly dependent on the facts and circumstances of an error. 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, 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 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; these accounts will vary from the model for various reasons. 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, investment advisor associates, and equity traders. The number of accounts reviewed by each person varies based on the type of account. Kayne Anderson Rudnick's Compliance Department may perform random account reviews. These reviews 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, and reviewing the billing rate

Kayne Anderson Rudnick manages accounts on a discretionary basis and 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 which result from such transactions.

Generally, 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 may contact us directly at any time. Direct accounts can be 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 sponsor's preference, generally wrap program accounts (other than sub-advisory accounts) are provided quarterly reports identifying holdings and, for some programs, performance.

Item 14 – Client Referrals and Other Compensation

Kayne Anderson Rudnick maintains contractual agreements with unaffiliated parties who refer clients to Kayne Anderson Rudnick 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.

Kayne Anderson Rudnick has a solicitation agreement with Allan Rudnick, a founder of Kayne Anderson Rudnick, who refers clients to Kayne Anderson Rudnick for compensation. Kayne Anderson Rudnick has 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.

Kayne Anderson Rudnick participates in the Fidelity Wealth Advisor Solutions Program (the “WAS Program”), through which Kayne Anderson Rudnick receives referrals from Strategic Advisers, Inc. (“SAI”), a registered investment adviser and subsidiary of FMR LLC, the parent company of Fidelity Investments.

Under the WAS Program, SAI acts as a solicitor for Kayne Anderson Rudnick, and Kayne Anderson Rudnick pays referral fees to SAI for each referral received based on Kayne Anderson Rudnick’s assets under management attributable to each client referred by SAI or members of each client’s household. The WAS program is designed to help investors find an independent investment advisor, and any referral from SAI to Kayne Anderson Rudnick does not constitute a recommendation or endorsement by SAI of Kayne Anderson Rudnick’s particular investment management services or strategies. More specifically, Kayne Anderson Rudnick pays the following amounts to SAI for referrals; for referrals made prior to April 1, 2017, an annual percentage of 0.20% of any and all assets in client accounts, for referrals made after April 1, 2017, 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 SAI and (ii) an annual percentage of 0.25% of all other assets held in client accounts. For referrals made prior to April 1, 2017, these fees are payable for a maximum of seven years. Fees with respect to referrals made after that date are not subject to the seven year limitation. In addition, Kayne Anderson Rudnick has agreed to pay SAI 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 must meet certain minimum participation criteria, but Kayne Anderson Rudnick may have been selected for participation in the WAS Program as a result of its other business relationships with SAI and its affiliates, including Fidelity Brokerage Services, LLC (“FBS”). As a result of its participation in the WAS Program, Kayne Anderson Rudnick may have a potential conflict of interest with respect to its decision to use certain affiliates of SAI, including FBS, for execution, custody and clearing for certain client accounts, and Kayne Anderson Rudnick may have a potential 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 SAI, Kayne Anderson Rudnick has agreed that Advisor 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 SAI as part of the WAS Program. Pursuant to these arrangements, Kayne Anderson Rudnick has agreed not to solicit clients to transfer their brokerage accounts from affiliates of SAI or establish brokerage accounts at other custodians for referred clients other than when Kayne Anderson Rudnick’s fiduciary duties would so require, and Advisor has agreed to pay SAI a one-time fee equal to 0.75% of the assets in a client account that is transferred from SAI’s affiliates to another custodian; therefore Kayne Anderson Rudnick may have an incentive to suggest that referred clients and their household members maintain custody of their accounts with affiliates of SAI. 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.

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, Kayne Anderson Rudnick could be deemed to be sharing its fees with another investment firm.

Item 15 – Custody

Clients should receive at least quarterly statements 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. Kayne Anderson Rudnick’s statements can vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Kayne Anderson Rudnick’s investment management clients’ assets are held at unaffiliated qualified custodians. Although Kayne Anderson Rudnick does not hold these assets, it is deemed to have custody for purposes of amended Rule 206(4)-2 of the Advisors Act due to: (A) in managing its clients’ accounts, the ability to deduct management fees from clients’ accounts and receive such payment from the clients’ custodians; and (B) the fact that some of Kayne Anderson Rudnick’s clients have created through their Custodian (with Kayne Anderson Rudnick’s facilitation) standing third-party money movement instructions giving Kayne Anderson Rudnick the ability to direct the custodian to send the account owner’s (client’s) money to such third party.

Item 16 – Investment Discretion

Kayne Anderson Rudnick has full discretion to buy and sell securities without prior client approval under its investment advisory contract with the client. (Kayne Anderson Rudnick holds a limited power of attorney to act without prior consultation). Kayne Anderson Rudnick exercises its investment discretion consistent with its investment philosophy, as well as any investment guidelines or restrictions imposed by client and accepted by Kayne Anderson Rudnick. Because Kayne Anderson Rudnick will be managing the Kayne Anderson Rudnick Long/Short Fund LLC, we will be deemed as having custody on this one account. Kayne Anderson Rudnick does not maintain actual custody over any client assets. 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.

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 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 Kayne Anderson Rudnick does not hold securities on behalf of its clients, Kayne Anderson Rudnick 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, Kayne Anderson Rudnick 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, 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 their custodian for transaction information, however, if the client requests additional assistance, Kayne Anderson Rudnick

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.

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 their 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. Two members of the Risk and Compliance Committee can approve an override. Additionally, Kayne Anderson Rudnick utilizes ISS to vote proxies on its behalf, per the guidelines discussed above.
3. Absent any special circumstance, the Proxy Voting Guidelines are followed when voting proxies.
4. Kayne Anderson Rudnick can 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. Kayne Anderson Rudnick and its employees can 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.

The Proxy Voting Policy and Guidelines are posted on the public section of the firm’s website, www.kayne.com. For a copy of the policy or guidelines and inquiries regarding how a specific proxy proposal was voted, please contact Judith Ridder at 310.712.2909.

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Kayne Anderson Rudnick's financial condition. Kayne Anderson Rudnick has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.

Item 19 – Miscellaneous

Cost Basis Reporting

The Emergency Economic Stabilization Act of 2008 contains new requirements for brokerage firms and mutual fund companies regarding customer statements and Internal Revenue Reporting. This Act requires brokers to report adjusted basis for taxable accounts to the IRS and taxpayers via Form 1099-B beginning in 2011. While Kayne Anderson Rudnick will strive to match the custodian's method to calculate gains and losses, it can only be on a best efforts basis. The custodian's statements are the client's official books and records of their holding and the clients should rely solely on the information provided by their custodian. Clients should consult with their tax advisor for additional assistance.

Notifications Of Additions Or Withdrawals

Clients should notify Kayne Anderson Rudnick in writing and in advance each time funds or securities are deposited to, or withdrawn from, a client's account.

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"> • Social Security Number and investment experience • Account balances and assets • Risk tolerance and transaction history <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 (KAR) chooses to share; and whether you can limit this sharing.

Reasons We Can Share Your Personal Information	Does KAR 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 nonaffiliates to market to you	No	We do not share

Questions? Call 310.712.2909 or go to www.kayne.com

Who We Are

Who is providing this notice? Kayne Anderson Rudnick Investment Management, LLC (KAR)

What We Do

How does KAR 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.

How does KAR collect my personal information?

We collect your personal information, for example, when you:

- Open an account
- Seek advice about your investments
- Enter into an investment advisory contract
- Tell us about your investment or retirement portfolio
- Give us your contact information

Why can't I limit all sharing?

Federal law gives you the right to limit only:

- Sharing for affiliates' everyday business purposes- information about your creditworthiness
- Affiliates from using your information to market to you
- Sharing for nonaffiliates to market to you

Definitions

Affiliates

Companies related by common ownership or control. They can be financial and nonfinancial companies.

- Our affiliates include financial companies such as Virtus Investment Partners, Duff & Phelps Investment Management Co., Virtus Investment Advisers, Inc., Euclid Advisors LLC, Newfleet Asset Management, Inc., VP Distributors, LLC, Zweig Advisers LLC, Rampart Investment Management Company, LLC, Virtus Alternative Investment Advisers, Inc., Virtus ETF Advisers, LLC, ETF Distributors LLC, and Virtus Retirement Investment Advisers, LLC.

Nonaffiliates

KAR does not share with nonaffiliates so they can market to you.

Joint Marketing

KAR does not jointly market.

ERISA 408(b)(2) Disclosure

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

The following is a guide to important information that you should consider in connection with the services to be provided by KAR 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 Judy Ridder at phone number 310.712.2909 or email address jridder@kayne.com.

Required Information	Location(s)
Description of the services that KAR will provide to your plan	These can be found in KAR's Form ADV, Part 2A under Advisory Business.
A statement concerning the services that KAR will provide as an ERISA fiduciary and a registered investment adviser	These can be found in your Investment Advisory Agreement under Representations or in KAR's Form ADV, Part 2A under Advisory Business.
Direct Compensation KAR will receive from your Plan	Information regarding compensation KAR will receive from your plan can be found in your Investment Advisory Agreement's fee schedule. It can also be found in KAR's Form ADV, Part 2A under Fees and Compensation.
Indirect Compensation KAR will receive from other parties that are not related to KAR	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 KAR 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 KAR's Form ADV, Part 2A under Fees and Compensation.
The cost to your Plan or record keeping services	Not Applicable. KAR is not a record keeper or administrator to your Plan.