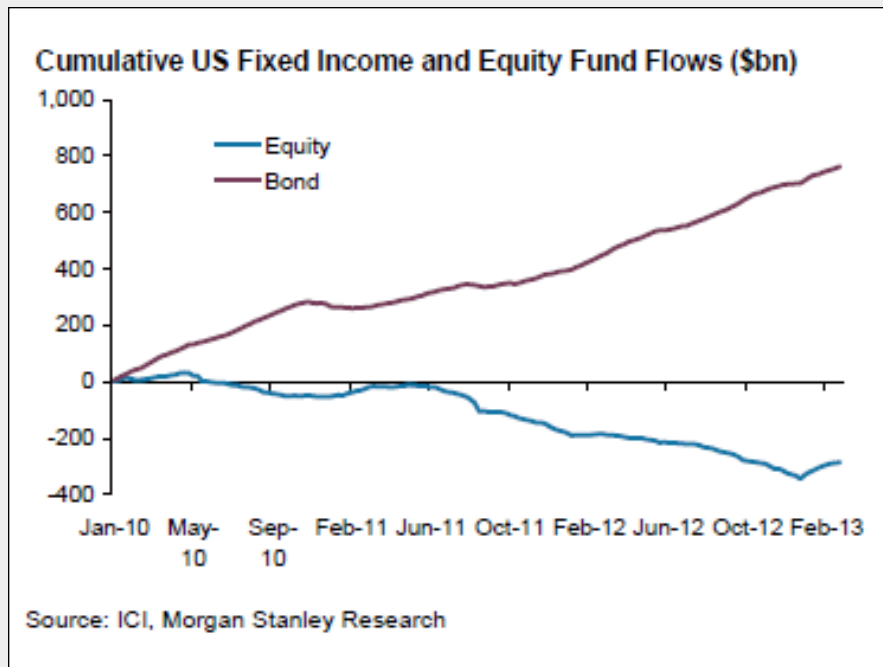






Within our taxable fixed income strategies, we have allocated 60% to 65% of client portfolios to investment grade credit. The most attractive section of the maturity curve is where the yield roll-down is greatest, which is currently between 7 and 9 years. Given our anticipation that Treasury yields will remain in a narrow range, this roll-down, coupled with credit spread improvement, should add significant value in 2013. We have generally structured all client fixed income portfolios to be slightly shorter in duration compared to their relevant benchmark. While we are prepared to shorten duration further if U.S. growth shows sustained acceleration, our near term outlook is for rates to remain range bound given the Fed's continued quantitative easing program as well as headwinds from sequestration and fiscal tightening.

While much press has been devoted to 'The Great Rotation' (where investors liquidate bonds in order to purchase equities), we are not seeing a net outflow of cash from the fixed income markets. Rather, it appears that much of the rotation into equities is being funded by cash balances. Fund flows into fixed income remain positive, albeit the rate of change has slowed. On the margin, this deceleration is a modest headwind for fixed income securities but the primary driver of prices will continue to be economic growth along with fiscal and monetary policies.



**Vaughan Nelson Investment Management**

600 Travis, Suite 6300  
Houston, Texas 77002-3071

713.224.2545  
888.888.8676  
713.228.4292 fax  
[www.vaughannelson.com](http://www.vaughannelson.com)

**CEO and CIO**

Chris Wallis, CFA

**EQUITY INVESTMENTS**

Dennis Alff, CFA  
Rhett Carter  
Stephen Davis, CFA  
James Eisenman, CFA, CPA  
Michael Hanna  
Scott Weber, CFA  
William Wojciechowski, PhD

**FIXED INCOME INVESTMENTS**

Charles Ellis  
Blanca Garza-Bianco  
Steven Henriksen

**MARKETING/CLIENT SERVICE**

Margaret Buescher, CFA  
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George Holewyne  
Cynthia Lones  
Fenner "Reese" Weller, III