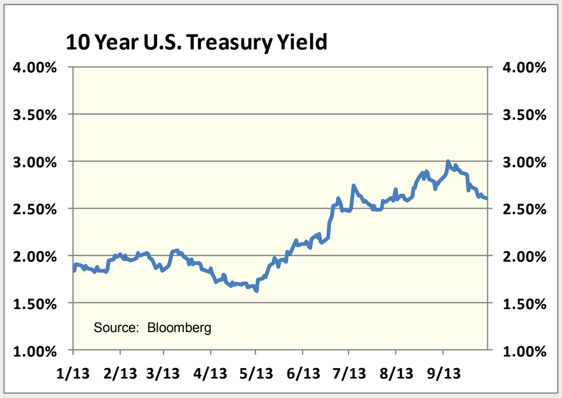
VAUGHAN NELSON

third quarter 2013

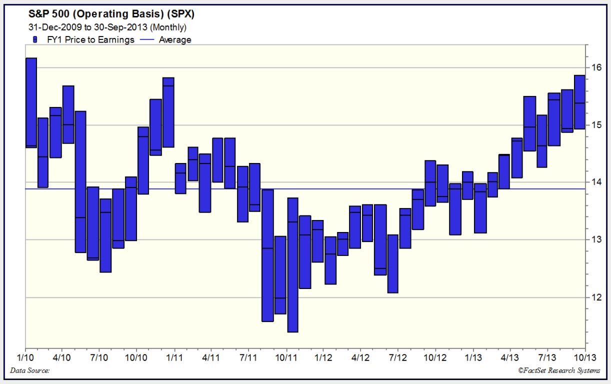
INVESTMENT *perspective*



The equity markets continued to advance in the third quarter, as the Federal Reserve (the Fed) delayed the tapering of Quantitative Easing (QE) and second quarter earnings results continued to point to modest future earnings growth and a continued economic recovery. In early May the 10-year U.S. Treasury note yield touched 1.50%, just above the all-time low. Then, triggered by talk of the Fed's intention to reduce the size of monthly bond purchases within their current Asset Purchase Program, yields began a steady rise to above 3%. In September the Fed surprised investors by announcing that they would maintain the current $85 billion monthly purchase program due to fiscal policy concerns and the negative impact of higher interest rates on economic growth. As a result, 10-year Treasury yields moved lower and ended the quarter at 2.61%. As expected the sudden rise in interest rates during the second quarter did slow the recovery in the housing sector and, without a further acceleration in employment, the Federal Reserve has chosen to delay the tapering of QE in light of further risks to the economic recovery. These risks include policy dysfunction in Washington D.C., the continued impact of federal budget cuts, and a rise in credit costs in European bank and developing economy credit markets.

Despite surprising many market participants by delaying the tapering of QE, the Fed was successful in reducing the excess leverage and complacency that was building in the credit markets and certain sectors of the equity markets. The elimination of these excesses will pave the way for the future reduction in QE as the Fed becomes more comfortable with the sustainability of the economic recovery.

Given the significant expansion in the equity market's valuation multiples, combined with a declining impact of further QE to enhance corporate earnings and boost real economic activity, we continue to expect the rate of return for the broader equity indices to moderate materially over the next three to five years relative to what was experienced over the prior three years. While fund flows and Fed actions can temporarily boost risk assets over the short term, to achieve double digit annualized returns from the broad equity indices over the intermediate term would require an unsustainable increase in valuation multiples. However, there are still individual stocks that will perform extraordinarily well despite the lowered return expectations for the general market. This positive outlook continues to be stock-specific and not reflective of opportunities in specific industries or regions of the world.



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In the taxable bond market, Corporate bond spreads narrowed and intermediate (3-10 year) maturity securities outperformed both shorter and longer term maturities. While the Barclays Aggregate Index produced a positive 0.57% total return in the 3rd quarter, the effects of rising interest rates continued to negatively impact 2013 returns with a negative return for the Index of 1.89% year-to-date. The Vaughan Nelson Core Fixed Income strategy benefitted from being structured for a rising interest rate environment, and we will maintain this shorter duration positioning. We expect Corporate bonds to continue to be the best performing sector within the Investment Grade universe, as strong demand and solid credit metrics combine to produce strong relative returns.

During the 3rd quarter the municipal bond market was supported by the decline in Treasury yields and a significant slowing of mutual fund outflows. The BAS/ML A-rated or better Intermediate Municipal Index registered positive returns of 0.84%, but returns are still slightly negative on a year-to-date basis. We view municipal bonds as attractive for taxable investors, with taxable-equivalent yields at the higher tax brackets well above those of similar maturity Treasury notes and similarly rated Corporate bonds. Our expectation of gradually rising interest rates continues to be our base case. Therefore, while remaining fully invested we prefer the 3-8 year intermediate maturity sector. The positive outcome from higher interest rates is that investors will be replacing reinvestment risk, with reinvestment opportunity.

Effective September 30, 2013 Chad Fargason has joined Vaughan Nelson as a Senior Portfolio Manager on all equity strategies managed by the team. Chad brings 13 years of investment management and research experience to Vaughan Nelson. Most recently Chad was with KKR & Company and previously with El Paso and the Boston Consulting Group. Chad earned his Ph.D. and M.A. from Duke University and his B.A. from Rice University. We look forward to introducing Chad as we begin our quarterly client calls.

With Chad's addition, there are no changes to our lead portfolio managers. Chris Wallis remains the lead manager on our Small Cap Value strategy, Dennis Alff is the lead portfolio manager on our Mid-Cap Value Opportunity strategy and Scott Weber is the lead manager on our Select strategy. Chad will be added as a portfolio manager on all three equity strategies, serving as a resource across the market capitalization spectrum as Vaughan Nelson applies the same investment philosophy across all equity strategies. As has been the case historically, Vaughan Nelson will continue to apply a generalist approach, where portfolio managers and research analysts are not focused on a single sector or industry. Rather, the team is charged with finding stocks we believe have the ability to generate a 50% return over three years, regardless of industry affiliation. Chad's deep analytical skills and consulting background will further our ability to uncover these opportunities.

Given the addition of Chad as noted above we will now be including Dennis Alff as a member of our Small Cap Value team, which reinforces the reality that all portfolio managers contribute to the successful implementation of our investment process across each equity product.