

Q1  
2019

# VAUGHAN NELSON SELECT PORTFOLIO FACT SHEET



## Performance (%)

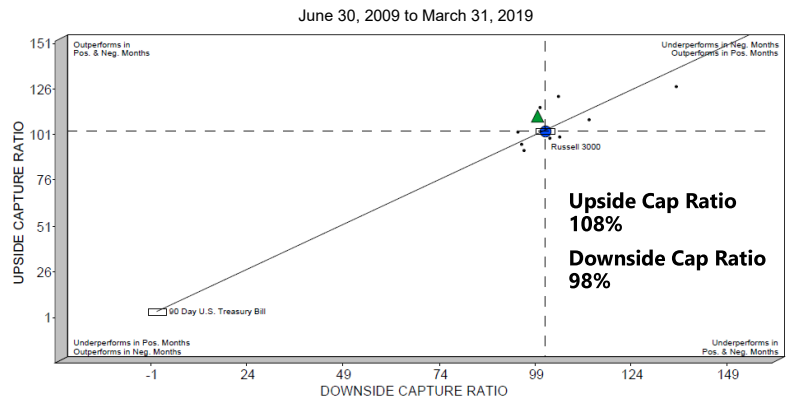
	YTD	1 Year	3 Years	5 Years	7 Years	Since 6/30/09
Portfolio (Gross)	12.8	8.0	14.1	10.9	14.1	16.8
Portfolio (Net)	12.5	6.9	12.9	9.8	13.0	15.6
Russell 3000® Index	14.0	8.8	13.5	10.4	12.6	14.6
S&P 500 Index	13.7	9.5	13.5	10.9	12.9	14.6

All periods longer than 12 months are annualized. See disclosures on last page.

## Manager Commentary

During the first quarter of 2019, equity markets recovered from the steep sell off experienced in the prior quarter. The S&P 500 and Russell 2000 Value appreciated 13.7% and 11.9%, respectively. Despite this strong performance equity markets have not fully recovered the losses experienced since the end of the third quarter of 2018.

The powerful rally was triggered by global central banks acknowledgement of tightening liquidity conditions and an increase in monetary stimulus by China. Markets are hopeful that 2019 will be a replay of 2016 with China's credit stimulus leading to a broad global recovery in economic growth. In 2016, the global economy was recovering from a broad industrial/energy recession at the time China implemented powerful credit stimulus supercharging the recovery. In 2019, China stimulus is much narrower and is focused on maintaining liquidity within the formal banking system as the shadow banking system continues to contract. Therefore, we expect little more than stabilization in China's economic growth versus a broad reacceleration.



We continue to expect only a modest resolution to tariff/trade negotiations with China and other countries. It is important to note that the global slowdown began prior to the implementation of tariffs and trade negotiations and therefore we do not expect a resolution to result in a sustainable increase in economic growth. Global trade as a percentage of global GDP peaked in 2014 and will remain in a secular decline over the medium term.

Although portions of Europe are in a recession, the U.S. is still in an environment of slowing economic growth, but not a recessionary environment. On the U.S. economic front first quarter GDP looks to be tracking somewhere in the 1.5% area. Our base case for full year 2019 is for GDP to slow from 2018's 2.9% pace to approximately 2.0%. However, if economic growth deteriorates further the U.S. economy could become vulnerable to a recession.

A reacceleration in economic growth is necessary to reach 2019 earnings estimates for the broad market averages. First quarter earnings growth is expected to be negative sequentially before beginning to recover with a sharp year over year increase in the second half of 2019. Unfortunately, the leading indicators we track continue to show slowing industrial activity not just overseas, but also in the U.S. The slowdown is now spreading to the services sector, which will likely cause a softening in employment activity and a reduction in inflationary pressures. Unless these leading indicators improve during the second quarter, 2019 earnings estimates will need to be reduced. In the near-term, economic activity will likely continue to slow, which will further pressure margins and ultimately earnings growth. Equity valuations have risen materially in Q1 2019 as markets recovered, and we expect equity markets to remain volatile until the economic slowdown has bottomed and we return to an environment of sustainable economic growth.

We continued to sell or trim positions that we believe to be fully valued or that could face increased earnings pressure as we move into the late stages of this economic recovery and added to existing positions or established new positions that met our investment criteria. As a result of this trading activity, sector weightings increased in the Communication Services, Consumer Discretionary, and Financials sectors and decreased in the Consumer Staples, Health Care, Industrials, and Technology sectors. The portfolio is underweight Consumer Discretionary, Consumer Staples, Health Care, REITs, Technology, and Utilities. These underweights are offset by overweights in the Communication Services, Energy, Financials, Industrials, and Materials sectors.

During the quarter, the portfolio experienced positive absolute performance but lagged the benchmark due to sector allocation. The primary detractors for the quarter were the portfolio's underweight to the Technology sector, which outperformed the market and cash.

*"Investing is about offsetting future obligations, not just having market exposure."*

# VAUGHAN NELSON SELECT PORTFOLIO - 1Q19

## Model Portfolio Attribution (Gross Returns)

S&P GICS SECTOR	Portfolio			Russell 3000®			Variation			Attribution Analysis		
	Avg Wt	Tot Ret	Contrib To Ret	Avg Wt	Tot Ret	Contrib To Ret	Avg Wt	Tot Ret	Contrib To Ret	Allocation Effect	Selection + Interaction	Total Effect
Communication Services	13.55	13.56	1.86	8.96	14.20	1.29	4.59	-0.65	0.56	-0.02	-0.05	-0.07
Consumer Discretionary	6.84	13.44	0.84	10.23	14.60	1.51	-3.40	-1.16	-0.67	-0.01	-0.05	-0.07
Consumer Staples	2.11	27.52	0.52	6.45	11.67	0.75	-4.34	15.85	-0.23	0.12	0.28	0.40
Energy	7.61	26.38	1.88	5.10	16.58	0.85	2.51	9.81	1.02	0.04	0.66	0.70
Financials	17.43	7.89	1.36	13.79	8.85	1.33	3.65	-0.96	0.03	-0.25	-0.14	-0.39
Health Care	11.40	2.17	0.23	14.56	8.15	1.23	-3.16	-5.98	-0.99	0.16	-0.73	-0.57
Industrials	15.06	19.34	3.00	10.26	16.80	1.70	4.80	2.53	1.29	0.24	0.26	0.50
Information Technology	10.57	17.70	1.77	20.25	20.80	3.97	-9.68	-3.10	-2.20	-0.59	-0.28	-0.87
Materials	8.87	14.08	1.23	2.99	11.62	0.36	5.88	2.46	0.87	-0.13	0.17	0.04
Real Estate	--	--	--	3.95	17.31	0.67	-3.95	-17.31	-0.67	-0.11	--	-0.11
Utilities	--	--	--	3.18	11.42	0.36	-3.18	-11.42	-0.36	0.09	--	0.09
[Cash]	6.57	0.56	0.04	--	--	--	6.57	0.56	0.04	-1.00	--	-1.00
<b>Total</b>	<b>100.00</b>	<b>12.71</b>	<b>12.71</b>	<b>100.00</b>	<b>14.04</b>	<b>14.04</b>	<b>--</b>	<b>-1.33</b>	<b>-1.33</b>	<b>-1.43</b>	<b>0.10</b>	<b>-1.33</b>

The above information is intended to provide a summary of how Vaughan Nelson's strategy model performed over the referenced period. Client-specific portfolios may differ meaningfully from this summary due to client-directed portfolio constraints that may include, but are not limited to, tax considerations, socially responsible restrictions and sector/position limitations. See additional disclosures on last page.

## Portfolio Characteristics

	Portfolio	Russell 3000® Index
No. of Holdings	26	2,976
Wtd. Avg. Mkt. Cap (\$B)	154.0	194.6
Price/Book	2.5	3.0
Est. 3-5 Yr. EPS Growth	10.9	11.8
P/E NTM	16.7	16.7
ROA (%)	8.5	8.4
ROE (%)	15.3	20.3
Dividend Yield (%)	2.1	1.9
Beta <sup>*</sup>	1.01	1.00
Sharpe Ratio <sup>*</sup>	0.85	0.84
Information Ratio <sup>*</sup>	0.17	N/A
R-Squared <sup>*</sup>	0.92	1.00
Standard Deviation <sup>*</sup>	12.05%	11.41%

\* Annualized 5-year ending 3/31/19 vs. Russell 3000® Index.

## Additions to Portfolio

	Category
Charles Schwab	UG
Dollar Tree	UA
Raytheon	UG

### Key

UG - undervalued growth  
 UA - undervalued asset  
 UD - undervalued dividend

## Top Ten Holdings<sup>1</sup>

	% of Total Portfolio <sup>*</sup>
Roper Technologies	6.40
Microsoft	5.51
Home Depot	5.34
AT&T	5.30
Sherwin-Williams	5.23
Electronic Arts	5.22
Berkshire Hathaway Class B	5.21
Kosmos Energy	4.55
Walt Disney	4.39
Dollar Tree	4.32

\* Excludes 7.34% cash.

<sup>1</sup> This information is provided as supplemental to the GIPS compliant presentation.

## Deletions from Portfolio

	Rationale
Acuity Brands	F
Snap On	BO

### Key

V - valuation reached  
 A - acquisition  
 MC - market cap  
 F - fundamental  
 BO - better opportunity

# VAUGHAN NELSON SELECT PORTFOLIO - 1Q19

## Portfolio Sector Weightings (%)<sup>\* 1</sup>

	Portfolio	Russell 3000® Index	S&P 500 Index
Financials	19.2	13.2	12.7
Communication Services	14.9	9.1	10.1
Industrials	14.8	10.2	9.6
Information Technology	11.8	21.1	21.2
Health Care	10.9	14.3	14.6
Consumer Discretionary	9.7	10.3	10.1
Energy	8.4	5.1	5.4
Materials	7.9	3.0	2.6
Consumer Staples	2.4	6.5	7.3
Real Estate	-	4.0	3.1
Utilities	-	3.2	3.3

\* Excludes 7.34% cash.

<sup>1</sup> This information is provided as supplemental to the GIPS® compliant presentation.

## Vaughan Nelson Equity Team - Select



**Scott Weber, CFA**  
**Lead Senior Portfolio Manager**

Began investment career in 1997; joined Vaughan Nelson in 2003; MBA, Tulane University; BS, University of the South



**Chris Wallis, CFA, CPA**  
**CEO and CIO, Lead Senior Portfolio Manager**

Began financial and investment career in 1991; joined Vaughan Nelson in 1999; MBA, Harvard Business School; BBA, Baylor University

### ANALYST TEAM



**Benjamin Carrier**  
**Equity Analyst**

Began financial and investment career in 2014; joined Vaughan Nelson in 2016; BBA, Baylor University, 2014, *cum laude*



**Keith Cioci**  
**Equity Analyst**

Began investment career in 2009; joined Vaughan Nelson in 2018; MPA, BBA, University of Texas, 2008



**James Eisenman, CFA, CPA**  
**Vice President - Equity Investments**

Began financial and investment career in 2002; joined Vaughan Nelson in 2005; BBA, Ohio State University, 2002; Masters in Accounting, Ohio State University, 2002



**Tyler Fry, CFA**  
**Equity Analyst**

Began investment career in 2014; joined Vaughan Nelson in 2016; BBA, Southern Methodist University, 2014 BS, Southern Methodist University, 2014



**Adam Rich, CFA**  
**Equity Analyst**

Began investment career in 2010; joined Vaughan Nelson in 2016; BS, Brigham Young University, 2010

## About Vaughan Nelson

Vaughan Nelson Investment Management specializes in value equity investing with a focus on a targeted return. The firm employs a bottom-up, fundamental research process that seeks to capitalize on information and liquidity inefficiencies in the equity universe. The firm's long-term, consistent investment approach draws on its in-depth research capabilities.

- Headquarters: Houston, Texas
- Founded: 1970
- Firm Assets: \$12.1 Billion\*
- 44 employees
- 15 Investment Team Professionals
- 7 CFAs, 2 PhDs

\* Number includes assets where Vaughan Nelson Investment Management does not have full unconditional trading authority. The assets consist of model portfolio relationships with third party platforms and totaled \$1.5 billion as of March 31, 2019.

# Vaughan Nelson Select Portfolio Composite Returns (6/30/09 - 3/31/19)

Year	Composite (Gross)	Composite (Net)	Primary Benchmark*	Secondary Benchmark	Number of Ports.	Disp. at End-of-Period (Std Dev)	Composite Assets at End-of-Period (\$MM-USD)	Ttl Firm Assets (ex. model assets) (\$MM-USD)	Entity Assets*** (\$MM-USD)	Std Dev. Composite (3-Year Annlzd)	Std Dev. Primary Benchmark (3-Yr Annlzd)	Std Dev. Secondary Benchmark (3-Yr Annlzd)
YTD 2019	12.78%	12.50%	14.04%	13.65%	85	N/A	1,435	10,567	12,088	11.53%	10.94%	10.58%
2018	-3.56%	-4.53%	-5.24%	-4.38%	80	0.24%	1,187	10,078	11,425	11.96%	11.18%	10.80%
2017	25.94%	24.69%	21.13%	21.83%	69	0.48%	997	11,675	13,172	10.54%	10.09%	9.92%
2016	7.99%	6.91%	12.74%	11.96%	53	0.23%	679	11,572	12,912	11.30%	10.88%	10.59%
2015	4.02%	2.97%	0.48%	1.38%	42	0.22%	448	11,316	12,469	11.81%	10.58%	10.47%
2014	12.04%	10.93%	12.56%	13.69%	41	0.11%	585	9,943	11,057	9.50%	9.29%	8.97%
2013	44.11%	42.73%	33.55%	32.39%	37	0.33%	410	9,243	10,258	12.24%	12.53%	11.94%
2012	10.91%	9.81%	16.42%	16.00%	27	0.29%	194	7,273	8,071	15.57%	15.73%	15.09%
2011	4.85%	3.84%	1.03%	2.11%	17	N/A	124	6,876	7,667	N/A	N/A	N/A
2010	31.28%	30.06%	24.75%	15.06%	†	N/A	26	7,050	7,965	N/A	N/A	N/A
2009**	19.37%	18.80%	30.05%	22.59%	†	N/A	23	6,757	7,690	N/A	N/A	N/A

\* Effective 1/1/11, the primary composite benchmark changed from the Russell Midcap® Value Index to the Russell 3000® Index to reflect the change in the management style of the strategy.

\*\* Partial year return. Inception date of June 30, 2009.

\*\*\* Number includes assets where Vaughan Nelson Investment Management does not have full unconditional trading authority. The assets consist of model portfolio relationships with third party platforms and totaled \$1.5 billion as of March 31, 2019. This information is presented as supplemental information to the Select compliant presentation.

† Indicates less than five accounts.

## NOTES

**COMPOSITE DESCRIPTION.** This composite is comprised of all fee paying, discretionary Select portfolios of at least \$1 million under management. Select portfolios are managed in a tactical manner predominately investing in 20-40 equity securities within the market capitalization range of the Russell 3000® Index at the time of purchase and may contain non-equity and non-U.S. positions. The primary benchmark is the Russell 3000® Index. The Russell 3000® Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The secondary benchmark is the S&P 500® Index. Frank Russell Company ("Russell") is the source and owner of Russell Index data contained herein. Any further dissemination of the data is strictly prohibited. Russell is not responsible for any inaccuracy in this presentation. The composite creation date is June 2009.

**FIRM DEFINITION.** Vaughan Nelson Investment Management ("Vaughan Nelson") is an equity, fixed-income and balanced portfolio investment manager. Vaughan Nelson is defined as an independent investment advisory firm and is affiliated with Natixis Investment Managers.

**FEES.** Select Fee Schedule: 1.00% on the first \$25 million, .85% on the next \$25 million, .75% on the remainder.

**OTHER NOTES.** Performance results are presented before management fees. Results for the full historical period are time weighted. Accounts have been valued daily and portfolio returns have been weighted by using beginning-of-month market values plus daily weighted cash flow. The dispersion calculation is based on a dollar-weighted average of portfolios within the composite for the entire period. The dispersion percent of N/A indicates that the number of portfolios for the entire year were equal to five or fewer or periods of less than one year. The benchmark source is FactSet. The valuation source is Intercontinental Exchange (ICE) through Advent Software. Benchmark returns are not covered by the report of independent verifiers.

## DISCLOSURES:

**BASIS OF PRESENTATION.** The attached information and index performance has been developed internally and/or obtained from sources, which Vaughan Nelson believes to be reliable; however, Vaughan Nelson does not guarantee the accuracy, adequacy or completeness of such information, nor does it guarantee the appropriateness of any strategy referred to for any particular investor. This document is provided for informational purposes only and should not be construed as advice or a recommendation for purchase or sale of securities. Past performance is not indicative of future results. The strategy is managed by Scott Weber and Chris Wallis from 12/31/18; Scott Weber, Chris Wallis, Dennis Alff and Chad Fargason from 9/30/13; and Scott Weber, Chris Wallis and Dennis Alff from inception.

**COMPOSITE NOTES.** The composite for each investment strategy has specific criteria in terms of minimum portfolio size, tax status, and discretion. Portfolios meeting the stated criteria are added to the composite as of the first full quarter of investment in that composite's style. Similarly, accounts are removed from the composite after the last full quarter of management under the composite style. A complete list and description of composites is available upon request. The composite results portrayed reflect the reinvestment of dividends, capital gains, and other earnings when appropriate.

**CALCULATION METHODOLOGY.** The composite performance results are time-weighted total return net of commissions and transaction costs. Valuations and returns are expressed in U.S. dollars. Vaughan Nelson consistently values all portfolios each month on a trade date basis. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request. No composite accounts hold foreign denominated securities. Net-of-fee returns are calculated utilizing the highest annual fee paid by a client in the strategy. This fee is divided by 12 and subtracted from the gross composite return on a monthly basis to calculate monthly net-of-fee returns. Quarterly and annual net-of-fee returns are calculated by geometrically linking these monthly returns.

**COMPLIANT STATEMENT.** Vaughan Nelson claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® Standards. Vaughan Nelson has been independently verified for the periods 12/31/97 through 12/31/18. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The Select composite has been examined for the periods 7/1/09 to 12/31/18. The verification and performance examination reports are available upon request.

Model year-end portfolio totals were as follows: 2018 - \$1.3 billion; 2017 - \$1.5 billion; 2016 - \$1.3 billion, 2015 - \$1.2 billion, 2014 - \$1.1 billion, 2013 - \$1.0 billion, 2012 - \$798 million, 2011 - \$791 million, 2010 - \$915 million, 2009 - \$933 million.

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