

Q4
2018

VAUGHAN NELSON SMALL CAP VALUE PORTFOLIO FACT SHEET



Performance (%)

	1 Year	3 Years	5 Years	7 Years	10 Years	Since 12/31/99
Portfolio (Gross)	-13.6	4.2	4.7	10.8	12.6	13.2
Portfolio (Net)	-14.5	3.1	3.6	9.7	11.4	12.1
Russell 2000® Value Index	-12.9	7.4	3.6	9.6	10.4	8.8

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

Manager Commentary

During the fourth quarter of 2018, equity markets experienced one of the largest sell-offs in market history. The S&P 500 and Russell 2000 Value declined approximately 13.5% and 18.7%, respectively.

Since the second quarter, we warned that central bank policy normalization needed to pause for the economy and capital markets to adjust to tighter monetary conditions. Unfortunately, the Federal Reserve raised interest rates by another 25 basis points in September and December and continued to reduce its balance sheet. Meanwhile, the European and Japanese central banks also reduced its monetary stimulus. During the fourth quarter, global liquidity fell at an annualized rate of 10% compared to normally rising at an annualized rate of 7%. The annualized decline of 10% is comparable to what was experienced during the 2008/2009 credit crisis.

After decades of financial engineering, and with the last nine years turbo charged by quantitative easing, the ability to fund/hold positions in risk assets can be more important to the price of that asset than the asset's underlying fundamentals. Therefore, the size of central bank balance sheets has become as important, if not more, as the level of interest rates. With global government deficits set to rise in 2019 any further decline in global liquidity will necessitate a further crowding out of liquidity available to support risk assets. This implies that multiple compression/disinflationary pressures will continue until central banks stop/reverse quantitative tightening or until markets reduce leverage sufficiently that fundamentals become more important than funding liquidity.

Credit markets were also impacted by the decline in liquidity. High yield bonds widened approximately 200 basis points during the quarter. Corporate balance sheets remain fully leveraged. A market environment that is highly leveraged requires a highly liquid environment to support refinancing activity and stem an increase in systemic risk. Interestingly, the risk within credit markets is concentrated in sovereign and high yield bonds. Central banks will likely continue to support the sovereign bond market thus increasing pressure on high yield bonds should liquidity continue to decline.

In the near-term, economic activity will likely continue to slow, which will further pressure margins and ultimately earnings growth. Although valuations have improved through 2018, they still do not fully reflect an earnings or economic recession in an environment where central banks and governments have minimal policy levers to fight a slowing economy.

While we would have preferred to have experienced a larger percentage of outperformance during the fourth quarter, we do not expect this current market correction to reflect underlying valuations and economic fundamentals until forced selling has run its course. During the decline in 2007/2008 the economic and valuation excesses were more isolated. However, during this bear market we are recessing excess liquidity not excess economic activity. Therefore, we would expect a broad "price recession" followed by a narrower price recovery. Most of the alpha generation this cycle will come from those stocks that are able to recover from oversold positions and continue higher versus stocks that previously rose solely from excess liquidity and not from underlying fundamental strength.

As a result of buys and sells and market action our weightings in Communication Services, Consumer Staples, Financials, Information Technology, and Utilities increased during the quarter. The portfolio's weighting in Consumer Discretionary, Materials, Energy, Health Care, and Industrials declined during the quarter.

During the quarter, the portfolio experienced negative absolute performance and positive relative performance. Relative outperformance was experienced in Health Care, Energy, Information Technology, Communication Services, Materials, and Consumer Staples. Negative relative performance was experienced in Consumer Discretionary, REITs, Utilities, Industrials, and Financials.

The portfolio continues to be underweight the traditional defensive sectors such as Consumer Staples, REITs, and Utilities while also underweight the more cyclical areas of the benchmark. As such, we continue to experience better support in broad market sell-offs but remain economically exposed should economic growth continue.

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

VAUGHAN NELSON SMALL CAP VALUE PORTFOLIO - 4Q18

Model Portfolio Attribution (Gross Returns)

S&P GICS SECTOR	Portfolio			Russell 2000 [®] Value			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	3.87	-10.12	-0.41	3.15	-18.91	-0.62	0.72	8.79	0.20	-0.01	0.35	0.34
Consumer Discretionary	6.81	-18.98	-1.31	9.32	-19.00	-1.70	-2.51	0.02	0.39	-0.04	-0.03	-0.06
Consumer Staples	1.20	-3.10	0.01	2.66	-14.59	-0.39	-1.46	11.49	0.40	-0.08	0.20	0.12
Energy	3.95	-46.08	-2.16	6.65	-41.20	-3.11	-2.70	-4.89	0.94	0.83	-0.33	0.49
Financials	24.84	-19.36	-4.76	29.11	-15.73	-4.45	-4.27	-3.63	-0.31	-0.14	-0.95	-1.10
Health Care	5.72	-14.23	-0.84	4.69	-29.65	-1.47	1.03	15.42	0.63	-0.19	1.06	0.88
Industrials	16.65	-22.82	-3.86	11.69	-19.79	-2.29	4.97	-3.03	-1.57	-0.07	-0.54	-0.64
Information Technology	19.14	-12.87	-2.38	10.23	-14.72	-1.46	8.90	1.84	-0.92	0.45	0.33	0.78
Materials	3.21	-22.00	-0.81	4.09	-27.71	-1.18	-0.88	5.72	0.37	0.07	0.19	0.25
Miscellaneous	3.64	-25.22	-0.65	--	--	--	3.64	-25.22	-0.65	-0.03	--	-0.07
Real Estate	3.03	-14.88	-0.48	11.49	-14.75	-1.74	-8.47	-0.13	1.26	-0.32	-0.02	-0.34
Utilities	4.09	-0.83	-0.13	6.70	-2.27	-0.27	-2.61	1.43	0.14	-0.40	0.04	-0.37
[Cash]	3.88	0.01	0.00	--	--	--	3.88	0.01	0.00	0.56	--	0.65
[Unassigned]	--	--	--	0.23	3.91	0.01	-0.23	-3.91	-0.01	-0.05	--	-0.05
Total	100.00	-17.79	-17.79	100.00	-18.66	-18.66	--	0.88	0.88	0.58	0.30	0.88

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 2000 [®] Value Index
No. of Holdings	80	1,387
Wtd. Avg. Mkt. Cap (\$B)	3.0	1.8
Price/Book	1.9	1.2
Est. 3-5 Yr. EPS Growth	10.3	12.1
P/E NTM	12.5	11.9
ROA (%)	4.8	3.0
ROE (%)	11.1	6.8
Dividend Yield (%)	1.6	2.4
Beta*	0.85	1.00
Sharpe Ratio*	0.30	0.20
Information Ratio*	0.21	N/A
R-Squared*	0.89	1.00
Standard Deviation*	13.51%	15.05%

* Annualized 5-year ending 12/31/18 vs. Russell 2000[®] Value.

Top Ten Holdings¹

	% of Total Portfolio*
Integrated Device Technology	2.64
Brink's	2.52
Southwest Gas	2.52
LPL Financial	2.32
Brown & Brown	2.27
Spire	2.20
Booz Allen Hamilton Class A	2.09
Nexstar Media Group Class A	2.07
First Financial Bancorp	1.99
CyberArk Software	1.88

* Excludes 4.53% cash.

¹ This information is provided as supplemental to the GIPS compliant presentation.

Additions to Portfolio

	Category
Blucora	UG
First Bancorp	UA
Meridian Bioscience	UG
NN	UA
Selective Insurance	UA
Green Dot	UG
Natus Medical	UG
Power Integrations	UG
Lattice Semiconductor	UG
Virtu Financial	UG

Key

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

Deletions from Portfolio

	Rationale
Berry Global	F
Cooper Standard	F
First American Financial	F
Forum Energy	F
Genesee & Wyoming	V
Oasis Petroleum	BO
Prosperity Bancshares	F
Reliance Steel and Aluminum	F
Zebra Technology	MC
El Dorado Resorts	BO
Superior Energy Services	F
Veritiv	F
Masonite International	BO
Wide Open West	F
NN	F

Key

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

VAUGHAN NELSON SMALL CAP VALUE PORTFOLIO – 4Q18

Portfolio Sector Weightings (%)^{* 1}

	Portfolio	Russell 2000® Value Index
Financials	28.5	29.9
Technology	21.9	10.7
Industrials	16.3	11.8
Health Care	7.6	4.3
Consumer Discretionary	6.8	9.4
Utilities	4.7	7.3
Communication Services	3.6	3.1
Materials	3.1	3.9
Real Estate	3.0	11.5
Energy	2.9	5.4
Consumer Staples	1.6	2.6

* Excludes 4.53% cash.

¹ This information is provided as supplemental to the GIPS® compliant presentation.

Vaughan Nelson Equity Team - Small Cap Value



Chris D. Wallis, CFA, CPA

CEO and CIO, Lead Senior Portfolio Manager

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



Stephen Davis, CFA **Portfolio Manager**

Began his investment career in 2005; joined Vaughan Nelson in 2010; B.A., Rice University, *cum laude*

ANALYST TEAM

Benjamin Carrier **Equity Analyst**

Began investment career in 2012; 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 investment career in 2002; joined Vaughan Nelson in 2005; BBA, Ohio State University, 2002; Masters in Accounting, Ohio State University, 2002

Tyler Fry **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
- 44 employees
- Founded: 1970
- 15 Investment Team Professionals
- Firm Assets: \$11.4 Billion*
- 6 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 \$1.3 billion as of December 31, 2018.

Vaughan Nelson Small Capitalization Value Portfolio Composite Returns (12/31/99 - 12/31/18)

Year	Composite (Gross)	Composite (Net)	Benchmark	Number of Portfolios	Dispersion at End-of-Period (Std Dev)	Composite Assets at End-of-Period (\$MM-USD)	Total Firm Assets (ex. model assets) (\$MM-USD)	Entity Assets** (\$MM-USD)	Std Dev Composite (3-Yr Annlzd)	Std Dev Benchmark (3-Yr Annlzd)
2018	-13.59%	-14.47%	-12.86%	87	0.38%	2,663	10,078	11,425	14.15%	15.76%
2017	7.77%	6.71%	7.84%	101	0.21%	3,780	11,675	13,172	12.78%	13.97%
2016	21.37%	20.18%	31.74%	109	0.86%	3,944	11,572	12,912	13.69%	15.50%
2015	0.99%	-0.01%	-7.47%	102	0.18%	3,135	11,316	12,469	12.12%	13.46%
2014	10.12%	9.02%	4.22%	95	0.16%	3,783	9,943	11,057	10.76%	12.79%
2013	40.39%	39.02%	34.52%	100	0.36%	3,933	9,243	10,258	14.48%	15.82%
2012	16.26%	15.16%	18.05%	96	0.28%	2,902	7,273	8,071	17.60%	19.89%
2011	-2.54%	-3.48%	-5.50%	102	0.19%	2,801	6,876	7,667	20.89%	26.05%
2010	25.20%	23.97%	24.50%	111	0.31%	3,133	7,050	7,965	22.91%	28.37%
2009	30.36%	29.09%	20.58%	93	0.66%	2,491	6,757	7,690	20.31%	25.62%
2008	-21.57%	-22.37%	-28.92%	95	0.52%	1,711	5,761	6,642	16.69%	19.14%
2007	7.31%	6.25%	-9.78%	109	0.29	1,840	6,637	8,176	10.68%	12.59%
2006	20.00%	18.82%	23.48%	35	0.47	580	5,218	6,711	11.26%	12.33%
2005	11.81%	10.71%	4.71%	23	0.31	234	4,120	4,688	14.60%	14.09%
2004	20.11%	18.93%	22.25%	12	0.12	73	3,446	3,617	18.12%	17.51%
2003	53.27%	51.79%	46.03%	9	0.29	61	3,246	3,274	19.57%	18.42%
2002	-6.80%	-7.74%	-11.43%	*	N/A	7	3,470	3,471	20.42%	17.39%
2001	5.93%	4.99%	14.03%	*	N/A	8	N/A	4,247	18.37%	14.65%
2000	57.55%	56.65%	22.83%	*	N/A	7	N/A	3,955	19.81%	16.61%

* Indicates less than five accounts.

** 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 \$1.3 billion as of December 31, 2018. This information is supplemental to the Small Cap Value compliant presentation.

Notes and Disclosures

NOTES

COMPOSITE DESCRIPTION. This composite is comprised of all fee paying, discretionary Small Capitalization Value portfolios in excess of \$1 million under management. Small Capitalization is defined as a company within the market capitalization range of Russell 2000® Value Index. The benchmark is the Russell 2000® Value Index. The Russell 2000® Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000® Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect value characteristics. 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 create date is April 1997.

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. Small Capitalization Value 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.

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 Chris Wallis, Scott Weber, Dennis Alff and Chad Fargason since 9/30/13. Previously, the strategy was managed by Chris Wallis and Scott Weber since November 2006.

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 descriptions 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 returns 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 are 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 9/30/18. 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 Small Capitalization Value composite has been examined for the periods 1/1/98 to 12/31/17. 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, 2008 - \$881 million.

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