

Q4  
2018

# VAUGHAN NELSON SELECT PORTFOLIO FACT SHEET



## Performance (%)

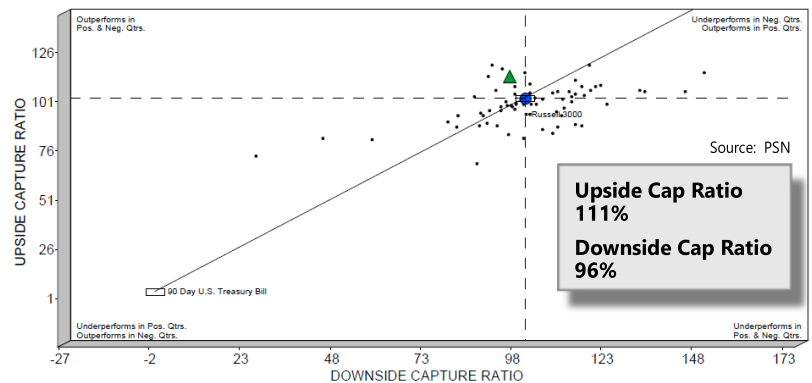
	1 Year	3 Years	5 Years	7 Years	Since 6/30/09
Portfolio (Gross)	-3.6	9.5	8.9	13.6	15.8
Portfolio (Net)	-4.5	8.4	7.8	12.5	14.6
Russell 3000® Index	-5.2	9.0	7.9	12.5	13.4
S&P 500 Index	-4.4	9.3	8.5	12.7	13.5

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.

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.

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 Financials, Health Care, and Materials sectors and decreased in the Consumer Discretionary, Consumer Staples, Energy, 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 negative absolute performance and lagged the benchmark due to stock and sector allocation. Specifically, the portfolio was underweight Consumer Staples, REITs, and Utilities, which outperformed during the quarter. Stock selection within Energy, Industrials, and Communication Services also detracted from results. Stock selection within Technology, Health Care, and Materials contributed the most to relative performance.

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

# VAUGHAN NELSON SELECT PORTFOLIO – 4Q18

## Model Portfolio Attribution (Gross Returns)

S&P GICS SECTOR	Portfolio			Russell 3000 <sup>®</sup>			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
<b>Communication Services</b>	11.04	-16.05	-1.83	8.96	-13.33	-1.17	2.08	-2.72	-0.66	0.03	-0.39	-0.36
<b>Consumer Discretionary</b>	5.16	-18.08	-1.04	10.13	-16.37	-1.64	-4.97	-1.71	0.60	0.01	-0.14	-0.13
<b>Consumer Staples</b>	2.65	-10.83	-0.24	6.56	-5.59	-0.40	-3.91	-5.24	0.15	-0.31	-0.11	-0.41
<b>Energy</b>	7.51	-35.63	-3.10	5.39	-25.87	-1.53	2.12	-9.76	-1.57	-0.28	-0.97	-1.26
<b>Financials</b>	15.52	-12.50	-2.04	13.98	-13.52	-1.86	1.54	1.02	-0.18	-0.08	0.15	0.07
<b>Health Care</b>	11.74	-6.42	-0.74	14.84	-10.87	-1.59	-3.10	4.45	0.85	-0.11	0.54	0.43
<b>Industrials</b>	19.15	-20.63	-3.97	10.19	-18.18	-1.90	8.96	-2.44	-2.07	-0.40	-0.43	-0.83
<b>Information Technology</b>	11.78	-12.26	-1.51	20.05	-17.35	-3.52	-8.27	5.08	2.00	0.21	0.60	0.82
<b>Materials</b>	8.90	-11.08	-0.90	2.94	-15.00	-0.41	5.96	3.92	-0.48	-0.01	0.36	0.35
<b>Real Estate</b>	--	--	--	3.78	-6.43	-0.26	-3.78	6.43	0.26	-0.29	--	-0.29
<b>Utilities</b>	--	--	--	3.12	0.82	-0.03	-3.12	-0.82	0.03	-0.43	--	-0.43
<b>[Cash]</b>	6.54	0.66	0.05	--	--	--	6.54	0.66	0.05	1.03	--	1.03
<b>[Unassigned]</b>	--	--	--	0.06	4.21	0.00	-0.06	-4.21	-0.00	-0.02	--	-0.02
<b>Total</b>	<b>100.00</b>	<b>-15.33</b>	<b>-15.33</b>	<b>100.00</b>	<b>-14.30</b>	<b>-14.30</b>	<b>--</b>	<b>-1.03</b>	<b>-1.03</b>	<b>-0.64</b>	<b>-0.39</b>	<b>-1.03</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 <sup>®</sup> Index
No. of Holdings	25	3,014
Wtd. Avg. Mkt. Cap (\$B)	151.4	169.4
Price/Book	2.4	2.7
Est. 3-5 Yr. EPS Growth	11.1	13.1
P/E NTM	14.6	14.6
ROA (%)	9.8	7.2
ROE (%)	22.1	18.2
Dividend Yield (%)	2.3	2.0
Beta <sup>*</sup>	1.04	1.00
Sharpe Ratio <sup>*</sup>	0.69	0.66
Information Ratio <sup>*</sup>	0.28	N/A
R-Squared <sup>*</sup>	0.92	1.00
Standard Deviation <sup>*</sup>	11.96%	11.07

\* Annualized 5-year ending 12/31/18 vs. Russell 3000<sup>®</sup> Index.

## Additions to Portfolio

	Category
AbbVie	UA
New Residential	UD

### Key

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

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

	% of Total Portfolio <sup>*</sup>
Berkshire Hathaway Class B	6.50
UnitedHealth Group	6.09
Sherwin-Williams	6.08
Roper Technologies	5.70
Home Depot	5.69
AT&T	5.51
Microsoft	5.42
Snap-on	4.97
Walt Disney	4.47
Ares Capital	4.23

\* Excludes 8.69% cash.

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

## Deletions from Portfolio

	Rationale
Altaba	F
Alibaba	F
Grifols	BO
Apple	F

### Key

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

# VAUGHAN NELSON SELECT PORTFOLIO – 4Q18

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

	Portfolio	Russell 3000® Index	S&P 500 Index
Financials	17.6	13.8	13.3
Technology	17.4	10.0	9.3
Industrials	13.6	15.1	15.6
Health Care	13.2	9.1	10.1
Consumer Discretionary	12.0	19.9	20.1
Utilities	10.2	3.0	2.7
Communication Services	7.6	5.0	5.3
Materials	5.7	10.2	9.9
Real Estate	2.7	6.7	7.4
Energy	0.0	3.9	3.0
Staples	0.0	3.3	3.3

\* Excludes 8.69% 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 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
- Founded: 1970
- Firm Assets: \$11.4 Billion\*
- 44 employees
- 15 Investment Team Professionals
- 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 Select Portfolio Composite Returns (6/30/09 - 12/31/18)

Year	Composite (Gross)	Composite (Net)	Primary Benchmark*	Secondary Benchmark	Number of Ports.	Dispersion 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-Yr Annlzd)	Std Dev Primary Benchmark (3-Yr Annlzd)	Std Dev Secondary Benchmark (3-Yr Annlzd)
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 \$1.3 billion as of December 31, 2018. 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, Chris Wallis, Dennis Aliff and Chad Fargason since 9/30/13. Previously, the strategy was managed by Scott Weber, Chris Wallis and Dennis Aliff.

**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 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 Select composite has been examined for the periods 7/1/09 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.