

# SMALL CAP VALUE STRATEGY

**PERFORMANCE (%)**

	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Since 12/31/99
Portfolio (Gross)	-17.9	-13.1	-1.0	1.6	6.5	10.2	12.4
Portfolio (Net)	-18.3	-13.9	-2.1	0.6	5.5	9.1	11.3
Russell 2000® Value Index	-23.5	-17.5	-4.4	1.3	4.0	7.8	7.8

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

**MANAGER COMMENTARY**
**Market Overview**

Following the largest quarterly decline on record in Q1 2020, the S&P 500 and Russell 2000 Value rose 20.5% and 18.9%, respectively during the second quarter. This equity market rally is consistent with the unprecedented monetary and fiscal policy support that went into the economy and with the bottoming of economic activity in late March to early April.

We continue to monitor high frequency data to ascertain the trajectory and sustainability of the ongoing economic recovery. While the recovery continues, the rate of improvement is starting to moderate as pent-up demand is being exhausted and economic agents remain leery of taking on incremental risk. There are still approximately 30 million people on unemployment benefits and the various components of the fiscal stimulus package are set to begin expiring in August. Without an extension of many of these components or additional stimulus added to the economy, it will not be possible to return our economy to its previous level of economic output and sustain risk assets at current valuation levels. Fortunately, monetary officials and members of congress are aware of this fact and will likely move quickly, barring an interruption by the political calendar, to implement additional measures, as necessary.

While the United States has finally reached the point where the Federal Government has become the marginal lender and spender of last resort, we are not alone. Planned stimulus measures across Europe and Asia are likely to dwarf those undertaken during the global financial crisis of 2008/2009. While policy support is very much warranted, investors will be dealing with the intended and unintended consequences of these actions for many years.

**Portfolio Positioning**

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

**Contributors to Performance**

During the quarter, the portfolio experienced positive absolute performance but underperformed the Russell 2000 Value index. Negative stock selection in Healthcare and our underweight allocation to the Consumer Discretionary sector were the biggest drags on performance at the sector level. However, absolute performance for the benchmark was directly proportional to the short interest decile ranking of the individual constituents. Only the top four deciles of the most shorted securities were able to outperform the broader benchmarks return.

## 2Q20 SMALL CAP VALUE PORTFOLIO

### 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	3.19	15.82	0.43	2.10	9.36	0.23	1.08	6.46	0.20	-0.10	0.18	0.08
Consumer Discretionary	1.58	49.21	0.53	9.52	63.61	5.10	-7.94	-14.41	-4.57	-2.65	-0.28	-2.92
Consumer Staples	0.70	18.71	0.13	3.43	19.45	0.70	-2.73	-0.73	-0.57	0.04	-0.00	0.03
Energy	1.09	87.97	0.67	3.98	26.36	0.99	-2.90	61.61	-0.32	-0.26	0.44	0.18
Financials	18.80	10.77	1.67	28.47	10.01	2.61	-9.66	0.76	-0.94	0.69	0.12	0.82
Health Care	9.19	10.65	1.08	6.58	33.99	2.17	2.61	-23.34	-1.08	0.28	-1.85	-1.57
Industrials	23.74	22.22	5.11	12.62	21.30	2.86	11.12	0.92	2.25	0.43	-0.04	0.39
Information Technology	25.81	21.99	5.87	11.23	17.30	1.91	14.58	4.70	3.95	-0.34	1.39	1.05
Materials	2.42	28.99	0.60	4.42	29.76	1.33	-2.00	-0.77	-0.73	-0.18	-0.09	-0.27
Real Estate	5.63	17.47	0.78	10.74	13.23	1.25	-5.11	4.24	-0.47	0.25	0.16	0.41
Utilities	4.66	-4.93	-0.10	6.86	-4.85	-0.26	-2.20	-0.08	0.16	0.53	0.07	0.59
[Cash]	3.19	--	--	--	--	--	3.19	--	--	-0.91	--	-0.91
<b>Total</b>	<b>100.00</b>	<b>16.76</b>	<b>16.76</b>	<b>100.00</b>	<b>18.90</b>	<b>18.90</b>	<b>--</b>	<b>-2.15</b>	<b>-2.15</b>	<b>-2.25</b>	<b>0.11</b>	<b>-2.15</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 2000® Value Index
No. of Holdings	63	1,439
Wtd. Avg. Mkt. Cap (\$B)	3.3	1.7
Price/Book	2.0	1.0
Est. 3-5 Yr. EPS Growth	10.5	8.2
P/E NTM	15.6	14.0
ROA (%)	6.5	2.3
ROE (%)	14.9	6.2
Dividend Yield (%)	1.5	3.2
Beta*	0.85	1.00
Sharpe Ratio*	0.03	0.01
Information Ratio*	0.06	N/A
R-Squared*	0.93	1.00
Standard Deviation* (%)	18.05	20.57

\* Annualized 5-year ending 6/30/20 vs. Russell 2000 Value.

### PORTFOLIO SECTOR WEIGHTINGS (%)<sup>1</sup>

	Portfolio	Russell 2000® Value Index
Industrials	30.3	16.1
Technology	21.6	6.1
Financials	19.6	29.2
Health Care	8.6	6.2
Real Estate	5.6	10.3
Utilities	4.0	5.4
Communication Services	3.6	2.4
Materials	3.0	5.4
Consumer Discretionary	1.7	10.9
Energy	1.2	4.5
Staples	0.8	3.5

\* Excludes 3.95% cash.

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

### TOP TEN HOLDINGS<sup>1</sup>

	% of Total Portfolio*
Cabot Microelectronics	4.03
Insight Enterprises	3.09
LPL Financial Holdings	2.93
Watts Water Technologies Class A	2.42
CACI International Class A	2.30
Old Republic International	2.29
First American Financial	2.27
GATX	2.24
PRA Health Sciences	2.24
MKS Instruments	2.22

\* Excludes 3.95% cash.

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

### ADDITIONS TO PORTFOLIO

	Category
Materion	UG

Key

UG - undervalued growth • UD - undervalued dividend • UA - undervalued

### DELETIONS FROM PORTFOLIO

	Category
Community Healthcare	BO
Entegris	MC
Globus Medical	V
Lumentum Holdings	BO
Science Applications International	BO

Key

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

## VAUGHAN NELSON EQUITY TEAM

### PORTFOLIO MANAGERS



**Chris 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, 1998
- BBA, Baylor University, 1991



**Stephen Davis, CFA**  
Portfolio Manager

- Began his investment career in 2005
- Joined Vaughan Nelson in 2010
- BA, Rice University, 2005, *cum laude*

### RESEARCH TEAM



**Benjamin Carrier, CFA**  
Equity Analyst

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



**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



Photo coming

**Sundeep Khanna, CFA**  
Vice President - Equity Investments

- Began investment career in 2004
- Joined Vaughan Nelson in 2020
- BS, The University of Texas, 2005



**Adam Rich, CFA**  
Vice President - Equity Investments

- 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\*
- Domestic equity, international equity, and fixed income strategies
- 45 employees
- 18 investment team professionals
- 11 Chartered Financial Analyst designations
- 3 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 \$1.1 billion as of June 30, 2020.

### VAUGHAN NELSON EQUITY STRATEGIES

<b>Small Cap Value</b>	<ul style="list-style-type: none"><li>• Benchmark against the Russell 2000® Value Index</li><li>• Generally 55 to 85 positions</li></ul>
<b>Select</b>	<ul style="list-style-type: none"><li>• Benchmark against the Russell 3000® Index and S&amp;P 500 Index</li><li>• Generally 20 to 40 positions</li></ul>
<b>Value Opportunity</b>	<ul style="list-style-type: none"><li>• Benchmark against the Russell Midcap® Value Index and Russell 2500™ Value Index</li><li>• Generally 55 to 75 positions</li></ul>
<b>International Small Cap</b>	<ul style="list-style-type: none"><li>• Benchmark against the MSCI EAFE Small Cap Index</li><li>• Generally 60 to 80 positions</li></ul>
<b>Emerging Markets</b>	<ul style="list-style-type: none"><li>• Benchmark against the MSCI Emerging Markets SMID Index</li><li>• Generally 60 to 80 positions</li></ul>

## OUR MISSION

To provide for the **financial wellbeing**  
of our **clients** and **employees**  
through **superior performance** consistent  
with our values.

## SMALL CAP VALUE PORTFOLIO COMPOSITE RETURNS (12/31/99 - 6/30/20)

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 Anlzd)	Std Dev. Benchmark 3-Yr Anlzd
YTD 2020	-17.90%	-18.34%	-23.50%	66	N/A	2,173	10,301	11,437	20.57%	23.25%
2019	25.95%	24.64%	22.39%	72	0.35%	2,712	11,346	13,064	14.18%	15.68%
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%	Fewer than 5	N/A	7	3,470	3,471	20.42%	17.39%
2001	5.93%	4.99%	14.03%	Fewer than 5	N/A	8	N/A	4,247	18.37%	14.65%
2000	57.55%	56.65%	22.83%	Fewer than 5	N/A	7	N/A	3,955	19.81%	16.61%

\* 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 \$1.1 billion as of June 30, 2020. 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.** 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 and Stephen Davis from 12/31/18; Chris Wallis, Scott Weber, Dennis Alff and Chad Fargason from 9/30/13; and Chris Wallis and Scott Weber from 6/30/04; and Chris Wallis since 1999.

**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.

### DISCLOSURES - cont.

**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 3/31/20. 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 12/31/19. The verification and performance examination reports are available upon request.

Model year-end portfolio totals were as follows: 2019 - \$1.7 billion, 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, 2007 - 1,539 million, 2006 - \$1,493, 2005 - \$568 million, 2004 - \$171 million, 2003 - \$28 million, 2002 - \$1 million.



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