

# Value Opportunity Strategy

PERFORMANCE (%)	1 Year	3 Years	5 Years	7 Years	10 Years	Since 6/30/06
Portfolio (Gross)	32.0	8.7	6.1	11.6	11.7	9.3
Portfolio (Net)	30.9	7.8	5.2	10.7	10.7	8.3
Russell Midcap <sup>®</sup> Value Index	27.1	8.1	7.6	12.0	12.4	8.3

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

## MANAGER COMMENTARY

### Market Overview

During the fourth quarter of 2019, equity markets continued to move higher with the S&P 500 and Russell 2000 advancing 9.07% and 9.94%, respectively. For the year, the S&P 500 returned 31.49% reaching a new all-time high. The Russell 2000 returned 25.53% for the year but has failed to eclipse its all-time highs reached in 2018. The fourth quarter rally was driven by stabilizing economic data overseas and the rapid expansion of the Federal Reserve's balance sheet to support interbank lending markets.

In the prior quarter, we noted the Federal Reserve would likely be forced to provide dollar liquidity on a sustained basis. Our view still stands that the U.S. dollar funding shortage experienced in the third and fourth quarters is not a temporary phenomenon but is the direct result of prior Federal Reserve QE policy and rising federal deficits. With over \$11 trillion in U.S. Treasuries to refinance in the next twelve months, in addition to rising federal deficits that will require additional U.S. Treasury issuance, the Federal Reserve will continue to provide liquidity support via U.S. Treasury purchases. This support will be necessary until the U.S. dollar declines sufficiently to allow foreign buyers to purchase U.S. Treasuries on a hedged basis, or until global economic activity reaccelerates thus reducing funding stress.

Given stretched valuations and increasing margin pressures, we expect U.S. equity returns to moderate in 2020. While stabilizing economic growth has supported U.S. equity markets, in order to meet 2020 earnings forecasts, there will need to be an acceleration in economic activity.

### Portfolio Positioning

As a result of buys and sells and market action, sector weightings increased in Consumer Staples, Energy, Industrials, and Materials and decreased in the Consumer Discretionary, Technology, and Utilities sectors. The portfolio is overweight Communication Services, Health Care, Technology, Materials, and Utilities while underweight Consumer Discretionary, Consumer Staples, Energy, Industrials, and Real Estate.

We continue to position the portfolio into companies that have lower earnings variability and higher profitability than the broader investment universe, and where we can get these characteristics at similar valuation levels to the benchmark index. We still do not favor any single industry or sector and continue to look for the characteristics noted above across all industries.

### Contributors to Performance

During the quarter, the portfolio experienced positive absolute performance and outperformed the benchmark. The relative performance was primarily driven by sector selection. The portfolio was underweight the Real Estate sector, which underperformed the market and overweight the Technology sector, which outperformed the market. Stock selection within Financials, Industrials, Health Care, and Energy also contributed to relative performance. Stock selection within the Consumer Discretionary, Utilities, Consumer Staples, and Technology sectors detracted from relative performance.

## 4Q19 VALUE OPPORTUNITY PORTFOLIO

### MODEL PORTFOLIO ATTRIBUTION (GROSS RETURNS)

S&P GICS SECTOR	Portfolio			Russell Midcap <sup>®</sup> 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	4.34	13.76	0.58	3.77	11.21	0.41	0.57	2.56	0.16	0.03	0.11	0.14
Consumer Discretionary	6.82	-3.47	-0.30	8.64	8.26	0.72	-1.82	-11.73	-1.02	-0.01	-0.89	-0.90
Consumer Staples	2.06	-8.10	-0.21	4.52	6.49	0.28	-2.46	-14.59	-0.49	0.00	-0.33	-0.33
Energy	3.83	12.52	0.71	5.37	10.55	0.55	-1.54	1.97	0.16	0.03	0.20	0.23
Financials	18.83	11.33	2.16	18.94	7.11	1.35	-0.11	4.22	0.81	0.03	0.74	0.77
Health Care	7.55	12.67	0.97	6.80	7.81	0.53	0.75	4.86	0.44	0.02	0.36	0.38
Industrials	9.21	16.64	1.48	12.25	9.30	1.15	-3.05	7.34	0.33	-0.15	0.64	0.50
Information Technology	21.70	6.50	1.44	7.38	11.46	0.83	14.31	-4.96	0.61	0.72	-1.03	-0.31
Materials	7.04	9.70	0.63	6.60	9.40	0.61	0.44	0.31	0.02	0.02	-0.03	-0.00
Real Estate	1.66	-15.88	-0.27	14.42	-0.26	-0.03	-12.76	-15.63	-0.24	0.88	-0.27	0.60
Utilities	14.14	-2.73	-0.46	11.31	-0.11	-0.05	2.83	-2.62	-0.41	-0.21	-0.36	-0.57
[Cash]	2.83	0.46	0.02	--	--	--	2.83	0.46	0.02	-0.13	--	-0.13
<b>Total</b>	<b>100.00</b>	<b>6.73</b>	<b>6.73</b>	<b>100.00</b>	<b>6.36</b>	<b>6.36</b>	<b>--</b>	<b>0.38</b>	<b>0.38</b>	<b>1.24</b>	<b>-0.86</b>	<b>0.38</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 Midcap <sup>®</sup> Value Index
No. of Holdings	69	631
Wtd. Avg. Mkt. Cap (\$B)	18.6	15.8
Price/Book	2.5	2.0
Est. 3-5 Yr. EPS Growth	13.8	7.3
P/E NTM	15.5	16.1
ROA (%)	6.5	5.1
ROE (%)	15.2	12.1
Dividend Yield (%)	1.5	2.2
Beta*	1.03	1.00
Sharpe Ratio*	0.36	0.52
Information Ratio*	-0.29	N/A
R-Squared*	0.86	1.00
Standard Deviation* (%)	13.88	12.51

\* Annualized 5-year ending 12/31/19 vs. Russell Midcap Value.

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

	Portfolio	Russell Midcap <sup>®</sup> Value Index
Technology	21.5	7.6
Financials	19.2	18.4
Utilities	13.6	11.2
Industrials	10.3	12.3
Health Care	8.1	6.9
Materials	7.5	6.7
Consumer Discretionary	6.2	8.6
Energy	5.0	5.7
Communication Services	4.7	3.9
Staples	2.0	4.7
Real Estate	1.9	14.0

\* Excludes 1.23% cash.

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

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

	% of Total Portfolio*
Nexstar Media Group Class A	3.50
TCF Financial	2.98
Fiserv	2.66
CACI International Class A	2.60
Fidelity National Information Services	2.46
Evergy	2.28
Global Payments	2.28
Vistra Energy	2.26
IQVIA Holdings	2.13
Allstate	2.12

\* Excludes 1.23% cash.

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

### ADDITIONS TO PORTFOLIO

	Category
LyondellBasell	UA
Pioneer Natural Resources	UA

Key

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

### DELETIONS FROM PORTFOLIO

	Category
Continental Resources	BO
Gildan	F
QEP Resources	BO
Versum Materials	A

Key

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

## VAUGHAN NELSON EQUITY TEAM

### PORTFOLIO MANAGERS



#### Dennis Alff, CFA

##### Lead Senior Portfolio Manager

- Began his investment and research career in 1993
- Joined Vaughan Nelson in 2006
- MBA, Harvard Business School, 1998
- BS, United States Military Academy, 1993



#### Chad Fargason, PhD

##### Senior Portfolio Manager

- Began his investment and research career in 1998
- Joined Vaughan Nelson in 2013
- PhD, Duke University, 1998
- MA, Duke University, 1996
- BA, Rice University, 1994

### 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*



#### 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
- MAcc, 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: \$13.1 Billion\*

\*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 \$1.7 billion as of December 31, 2019.

### VAUGHAN NELSON EQUITY STRATEGIES

#### Small Cap Value

- Benchmark against the Russell 2000® Value Index
- Generally 55 to 85 positions

#### Select

- Benchmark against the Russell 3000® Index and S&P 500 Index
- Generally 20 to 40 positions

#### Value Opportunity

- Benchmark against the Russell Midcap® Value Index and Russell 2500™ Value Index
- Generally 55 to 75 positions

#### International Small Cap

- Benchmark against the MSCI EAFE Small Cap Index
- Generally 60 to 80 positions

#### Emerging Markets

- Benchmark against the MSCI Emerging Markets SMID Index
- Generally 60 to 80 positions

## OUR MISSION

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

## Value Opportunity Portfolio Composite Returns (6/30/06 - 12/31/19)

Year	Composite (Gross)	Composite (Net)	Primary Benchmark	Secondary 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. Primary Benchmark (3-Yr Annlzd)	Std Dev. Secondary Benchmark (3-Yr Annlzd)
2019	31.98%	30.89%	27.06%	23.56%	24	0.11%	1,695	11,346	13,064	13.33%	12.79%	14.23%
2018	-14.82%	-15.56%	-12.29%	-12.36%	36	0.14%	1,952	10,078	11,425	14.01%	11.96%	13.58%
2017	14.31%	13.33%	13.34%	10.36%	49	0.27%	2,612	11,675	13,172	12.30%	10.32%	11.81%
2016	7.12%	6.22%	20.00%	25.20%	62	0.26%	2,895	11,572	12,912	13.53%	11.30%	13.17%
2015	-2.35%	-3.21%	-4.78%	-5.49%	62	0.24%	2,631	11,316	12,469	12.48%	10.71%	12.02%
2014	12.26%	11.32%	14.75%	7.11%	58	0.58%	1,477	9,943	11,057	11.21%	9.81%	11.25%
2013	43.03%	41.84%	33.46%	33.32%	46	0.39%	965	9,243	10,258	15.65%	13.69%	15.07%
2012	17.56%	16.57%	18.51%	19.21%	41	0.18%	586	7,273	8,071	18.81%	16.76%	18.41%
2011	-2.37%	-3.17%	-1.38%	-3.36%	27	0.17%	433	6,876	7,667	21.46%	22.78%	24.23%
2010	21.92%	20.91%	24.75%	24.82%	19	0.36%	356	7,050	7,965	24.09%	27.11%	26.97%
2009	34.11%	32.87%	34.21%	27.68%	7	0.49%	127	6,757	7,690	21.42%	25.01%	24.61%
2008	-31.33%	-32.01%	-38.44%	-31.99%	7	0.19%	80	5,761	6,642	N/A	N/A	N/A
2007	10.48%	9.39%	-1.42%	-7.27%	6	N/A	90	6,637	8,176	N/A	N/A	N/A
2006*	7.73%	7.20%	12.33%	11.62%	Fewer than 5	N/A	18	5,218	6,711	N/A	N/A	N/A

\* Partial year return. Inception date of June 30, 2006.

\*\* 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 \$1.7 billion as of December 31, 2019. This information is supplemental to the Value Opportunity compliant presentation.

## Notes and Disclosures

### NOTES

**COMPOSITE DESCRIPTION.** This composite is comprised of all fee paying, discretionary Value Opportunity portfolios with a minimum of \$1 million under management. Value Opportunity is defined as a security having a market capitalization within the capitalization range of \$1 billion to \$20 billion at time of initial purchase. The primary benchmark is the Russell Midcap® Value Index. The Russell Midcap® Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap® Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Midcap® Value Index is constructed to provide a comprehensive and unbiased barometer of the mid-cap value market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap value market. The secondary benchmark is Russell 2500® Value Index. The Russell 2500® Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2500® Value Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap value market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-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. Composite creation date is June 2006.

**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.** Value Opportunity Fee Schedule: .85% on the first \$10 million, .75% on the next \$15 million, .70% on the next \$25 million, .65% on assets over \$50 million.

**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 Dennis Alff and Chad Fargason from 12/31/18; Dennis Alff, Chad Fargason, Chris Wallis and Scott Weber from 9/30/13; and Dennis Alff, Chris Wallis and Scott Weber since 6/30/06.

### DISCLOSURES - cont.

**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 9/30/19. 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 Value Opportunity composite has been examined for the periods 7/1/06 to 12/31/18. 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 million.



600 Travis, Suite 6300  
Houston, TX 77002-3071  
Main: (713) 224-2545  
Fax: (713) 228-4292  
www.vaughannelson.com