

# GLOBAL SMID CAP STRATEGY



## 3Q 2023 Strategy Fact Sheet

### PERFORMANCE (%)

Past performance is no guarantee of future results.

	3Q 2023	YTD	1 Year	3 Years	Since 6/30/2020
Portfolio (Gross)	-2.64	7.04	17.64	11.06	12.87
Portfolio (Net)	-2.86	6.32	16.60	10.07	11.87
MSCI ACWI SMID Cap Net Index	-3.55	3.93	15.47	5.92	7.90

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

### Manager Commentary

#### Market Overview

Global equity markets produced mixed results for the second quarter with a large spread between the best performing markets, some of which were up over 25%, and the worst performing with some markets down more than 10% for the quarter. The benchmark MSCI ACWI SMID Cap Index produced negative results, down 3.55% for the quarter.

Global growth continues to deteriorate as aggressive rate increases negatively impact economic fundamentals. In the U.S., the manufacturing and transport sectors are in a recession, and the service sector is set to slow further. The level of increase in the unemployment rate will be a key factor influencing the depth and breadth of the economic slowdown. Offsetting the deteriorating economic environment are continued liquidity injections by the major non-U.S. central banks as well as the U.S. Federal Reserve's reverse repo facility, which has become the primary source of liquidity for rebuilding the U.S. Treasury's general account. This flood of liquidity has boosted equity markets and dampened fixed income volatility, while compressing fixed income spreads.

Interest rate increases impact the economy with a lag of twelve months or more. As such, the global economy is still early in adjusting to the current higher interest rate environment. Stress in the U.S. banking system continues to build, and without a cut in interest rates or suspension of quantitative tightening, we expect an increase in troubled banks and continued tightening in credit availability. To cut interest rates or suspend quantitative tightening, the Federal Reserve will need a better line of sight to reach their 2% inflation target. Inflation is set to stabilize at approximately 3.5% to 4.0% in the next few months; however, the disinflationary conditions that have rapidly reduced inflation are abating. Leading inflation indicators are now signaling the possibility of rising inflation in early 2024. We expect the Federal Reserve to maintain the current tight monetary conditions until there is a material decline in financial conditions or the inflationary trend breaks through 3% with visibility to reaching the inflation objective.

#### Portfolio Positioning

As a result of buys and sells and market action, the portfolio is overweight Information Technology, Industrials, Consumer Discretionary, and Energy while underweight Consumer Staples, Real Estate, Utilities, Communication Services, Materials, Health Care, and Financials.

#### Contributors to Performance

During the quarter, the portfolio experienced negative absolute and positive relative performance. Positive relative performance came from Consumer Discretionary, Health Care, Energy, Financials Utilities, Real Estate, Consumer Staples, and Communication Services while offset by underperformance in Information Technology, Materials, and Industrials.

"We believe investing is about **offsetting future obligations**, not just having market exposure."

## 3Q 2023 GLOBAL SMID CAP STRATEGY PORTFOLIO

### Portfolio Characteristics

	Portfolio	MSCI ACWI SMID Cap Net Index
Number of Holdings	66	7,912
Wtd. Avg. Mkt. Cap (\$B)	10.29	9.04
Price/Book	2.68	1.70
Price/Cash Flow	10.75	7.43
P/E NTM	15.38	13.19
ROA (%)	9.32	5.89
ROE (%)	19.29	13.17
Dividend Yield (%)	1.58	2.31
Net Debt/Equity	0.73	0.77

Source: FactSet

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

	Portfolio	MSCI ACWI SMID Cap Net Index
Industrials	25.39	19.17
Information Technology	21.03	12.55
Consumer Discretionary	16.31	11.61
Financials	14.26	13.99
Energy	6.91	4.80
Health Care	6.37	8.73
Materials	5.90	8.57
Real Estate	2.83	7.15
Communication Services	1.00	4.02
Consumer Staples	-	5.05
Utilities	-	4.36

\* Excludes 4.80% cash. Due to rounding, totals may not equal 100%.

<sup>1</sup> Performance holdings subject to change.

Source: FactSet

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

	Country	Sector	% of Total Portfolio *
Brown & Brown Inc	United States	Financials	3.29
AutoZone Inc	United States	Consumer Discretionary	3.25
Element Solutions Inc	United States	Materials	3.23
Insight Enterprises Inc	United States	Information Technology	3.16
Diamondback Energy Inc	United States	Energy	2.43
Fabrinet	Thailand	Information Technology	2.34
Verisk Analytics Inc	United States	Industrials	2.33
Tyler Technologies Inc	United States	Information Technology	2.11
Cboe Global Markets Inc	United States	Financials	2.08
JTC PLC	Jersey	Financials	2.06

\* Excludes 4.80% cash.

<sup>1</sup> Performance holdings subject to change.

Source: FactSet

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

	Portfolio	MSCI ACWI SMID Cap Net Index
North America	60.31	55.40
Western Europe	23.94	16.04
Pacific Rim	14.74	21.82
South America	1.02	0.91
Africa	-	0.57
Central Asia	-	2.76
Eastern Europe	-	0.66
Middle East	-	1.83

\* Excludes 4.80% cash.

Source: FactSet

## VAUGHAN NELSON EQUITY TEAM

### PORTFOLIO MANAGERS



**James Eisenman, CFA, CPA**  
**Portfolio Manager**

- Began financial and accounting career in 2002
- Joined Vaughan Nelson in 2005
- Masters in Accounting, Ohio State University, 2005
- BBA, Ohio State University, 2002, with Honors



**Marco Priani, CFA, CPA, FRM**  
**Senior Portfolio Manager**

- Began financial and investment career in 2001
- Joined Vaughan Nelson in 2019
- MBA, The University of Chicago-Graduate School of Business, 2005
- LL.M., Northwestern University School of Law, 2006
- MSF, Universidad Del CEMA, 1999
- JD, Universidad De Buenos Aires-School of Law, 1987, *cum laude*



**Kevin Ross, CFA**  
**Senior Portfolio Manager**

- Began financial and investment career in 2006
- Joined Vaughan Nelson in 2019
- MBA, The University of Chicago Booth School of Business, 2014
- BSBA, Washington University, 2006



**Chris Wallace, CFA, CPA**  
**CEO and CIO**  
**Senior Portfolio Manager**

- Began financial, investment and accounting career in 1991
- Joined Vaughan Nelson in 1999
- MBA, Harvard Business School, 1998
- BBA, Baylor University, 1991

### RESEARCH



**Benjamin Carrier, CFA**  
**Vice President, U.S. Equity Analyst**

- Began financial analysis and accounting career in 2014
- BBA, Baylor University, 2014, *cum laude*



**Sundeep Khanna, CFA**  
**Vice President, U.S. Equity Analyst**

- Began investment management and financial analysis career in 2005
- BS, The University of Texas at Austin, 2005



**Earl Lee, CFA**  
**Associate, U.S. Equity Analyst**

- Began investment management and financial career in 2012
- MBA, The University of Texas at Austin, 2012
- BS, Purdue University, 2007

**William Lee**  
**Associate, U.S. Equity Analyst**

- Began investment career in 2023
- BA, Vanderbilt University, 2023



**Masa Matsumura, PhD**  
**Vice President, International Equity Analyst**

- Began financial and investment career in 2010
- Joined Vaughan Nelson in 2020
- MBA, The University of Chicago Booth School of Business, 2014
- PhD, University of Alabama at Birmingham, 2007
- MS, University of Alabama at Birmingham, 2005
- BS, University of Alabama at Birmingham, 2001



**Zhongjie (Matt) Wang**  
**Associate, International Equity Analyst**

- Began financial analysis career in 2019
- MBA, Northwest University, 2022
- BA, University of Manitoba, 2016

### RESEARCH



**Adam Rich, CFA**  
**Vice President, Deputy CIO**

- Began investment career in 2010
- Joined Vaughan Nelson in 2016
- BS, Brigham Young University, 2010



**Isabelle Long**  
**Associate, Portfolio and Risk Analysis**

- Began portfolio risk and analysis career in 2022
- BS, Texas A&M University, 2022



**William Wojciechowski, PhD**  
**Chief Risk Officer**  
**Portfolio and Risk Analysis**

- Began investment management and financial analysis career in 2001
- PhD, Rice University, 2001
- MA, Rice University, 1999
- MS, West Virginia University, 1996
- BS, Carnegie Mellon University, 1992

### 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: \$14.9 Billion\*
- Domestic equity, international equity, and fixed income strategies
- 49 employees
- 24 investment team professionals
- 12 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 \$2.2 billion as of 9/30/23.

### VAUGHAN NELSON EQUITY STRATEGIES

#### Global SMID Cap

- Benchmark against the MSCI ACWI SMID Cap Index
- Generally 40 to 80 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

#### 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

# GLOBAL SMID CAP PORTFOLIO COMPOSITE RETURNS

June 30, 2020 through September 30, 2023

Performance data shown represents past performance and is not a guarantee of, and not indicative of, future results.

Year	Compos. (Gross)	Compos. (Net)	MSCI ACWI SMID Cap Net Index	No. of Ports.	Disp. At EOP (Std. Dev.)	Compos. Assets at EOP (MM-USD)	Total Firm Assets (ex. model assets) (\$MM-USD)	Entity Assets** (\$MM-USD)	Std Dev. Compos. (3-Yr Anlzd)	Std Dev. MSCI ACWI SMID Cap Net Index (3-Yr Anlzd)
YTD 2023	7.04%	6.32%	3.93%	5 or fewer	N/A	131	12,643	14,859	18.49%	18.36%
2022	-20.87%	-21.59%	-18.72%	5 or fewer	N/A	112	11,720	13,566	N/A	N/A
2021	29.31%	28.16%	16.24%	5 or fewer	N/A	114	13,490	15,481	N/A	N/A
2020*	35.34%	34.76%	30.41%	5 or fewer	N/A	9	12,690	14,052	N/A	N/A

## NOTES AND DISCLOSURES

### NOTES:

**COMPOSITE DESCRIPTION.** This composite is comprised of all fee paying, discretionary Global SMID portfolios in excess of \$1 million under management. Global SMID is defined as a company within the market capitalization range of the MSCI ACWI SMID Cap Net Index at the time of initial purchase. The benchmark is the MSCI ACWI SMID Cap Index. The index is a free-float-adjusted market capitalization index that is designed to measure small and mid cap equity market performance across 23 Developed and 26 Emerging Markets, as defined by MSCI. The index is reported net-of-dividends, which indicates dividends are reinvested after the deduction for withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. MSCI is the source and owner of MSCI Index data contained herein. Any further dissemination of the data is strictly prohibited. MSCI is not responsible for any inaccuracy in this presentation. The composite creation and inception date is 6/30/20. **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, LLC. **FEES.** Global SMID Cap Fee Schedule: .90% on the first \$10 million, .85% on the next \$15 million, .80% on the next \$25 million, .75% on the next \$50 million, .65% on amounts over \$100 million. **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 gross portfolio returns 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). 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 James Eisenman, Marco Priani, Kevin Ross, and Chris Wallis from 6/30/20. **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 list of all composites and pooled fund investment strategies offered by the firm, with a description of each strategy, is available upon request. The composite results portrayed reflect the reinvestment of dividends, capital gains, and other earnings when appropriate. The U.S. dollar is the currency used to express performance. **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 GIPS Reports are available upon request. 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 6/30/23. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Global SMID Cap composite has had a performance examination for the periods 6/30/20 to 12/31/22. The verification and performance examination reports are available upon request. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Model year-end portfolio totals were as follows: 2022 - \$1.8 billion, 2021 - \$2.0 billion, 2020 - \$1.4 billion.

\* Partial year return. Inception date of 6/30/20.

\*\* 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 \$2.2 billion as of 9/30/23. This information is supplemental to the Global SMID Cap GIPS Report.

