

# SMALL CAP VALUE STRATEGY



## 3Q 2023 Strategy Fact Sheet

### Performance (%)

Past performance is no guarantee of future results.

	3Q 2023	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Since 12/31/1999
Portfolio (Gross)	-4.44	10.14	19.23	19.33	8.58	9.38	9.71	13.29
Portfolio (Net)	-4.68	9.33	18.05	18.16	7.51	8.29	8.62	12.20
Russell 2000 Value Index	-2.96	-0.53	7.84	13.32	2.59	5.94	6.19	8.47

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

### Manager Commentary

#### Market Overview

During the third quarter, the S&P 500 fell 3.27% while the Russell 2000 Value declined 2.96%. International equity markets declined with the MSCI EAFE falling 4.04%.

Inflation peaked in the fourth quarter of 2022 and economic growth bottomed, which set the stage for the move higher in U.S. equity markets during the first seven months of 2023. The reacceleration in growth coupled with declining inflation allowed the market to begin pricing in a “soft landing” for the U.S. economy despite aggressive monetary policy tightening, the emergence of a banking crisis, and rising U.S. Treasury yields as the U.S. Treasury struggled to fund rising deficit spending. The Federal Reserve added fuel to the rally by aggressively pumping liquidity into the banking system to offset the material losses on bank balance sheets. For the quarter ending September 30, 2023, the equity rally has failed to broaden out and quickly corrected as rising oil prices, firming inflationary conditions, and a further slowing in economic growth challenged the “soft landing” thesis.

The reacceleration in economic growth that began in the fourth quarter of 2022 was driven by a surge in Federal spending that offset the developing industrial recession and continuing decline in real consumer spending. With the expiration of Covid stimulus in the third quarter of 2023, Federal spending has peaked and will begin slowing as industrial and consumer spending continue to slow, setting the stage for a potentially recessionary condition in the fourth quarter of 2023 through the first half of 2024. Fortunately, there are signs that disinflationary pressures are building which may provide the Federal Reserve sufficient policy flexibility to ease financial conditions should the economic fundamentals deteriorate materially.

#### Portfolio Positioning

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

#### Contributors to Performance

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

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

## 3Q 2023 SMALL CAP VALUE STRATEGY PORTFOLIO

### Portfolio Characteristics

	Portfolio	Russell 2000 Value Index
Number of Holdings	70	1,448
Wtd. Avg. Mkt. Cap (\$B)	5.00	2.35
Price/Book	1.94	1.17
Est. 3-5 Yr. EPS Growth (%)	9.47	6.44
P/E NTM	12.17	10.32
ROA (%)	8.08	4.04
ROE (%)	19.17	9.26
Dividend Yield (%)	2.08	2.46

Source: FactSet

### Risk Reward\*

	Portfolio	Russell 2000 Value Index
Beta	0.86	1.00
Sharpe Ratio	0.31	0.03
Information Ratio	0.83	N/A
R-Squared	0.92	1.00
Standard Deviation (%)	22.34	25.05

\* Annualized 5-years ending 9/30/2023.

Source: eVestment

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

	Portfolio	Russell 2000 Value Index
Industrials	24.42	14.24
Financials	18.94	25.70
Information Technology	14.26	6.07
Consumer Discretionary	10.34	10.47
Energy	8.28	10.92
Materials	6.99	4.84
Real Estate	6.22	10.15
Health Care	5.24	8.15
Communication Services	1.99	2.61
Consumer Staples	1.65	2.72
Utilities	1.65	4.13

\* Excludes 7.28% 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>

	% Total Portfolio		% Total Portfolio
Insight Enterprises Inc	3.66	International Game	2.50
Element Solutions Inc	3.62	Kirby Corp	2.45
Fabrinet	3.05	Beacon Roofing Supply	2.11
Rambus Inc	2.82	GATX Corp	2.08
Cboe Global Markets Inc	2.70	First American Financial	2.04

\* Excludes 7.28% cash.

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

Source: FactSet

### Additions To Portfolio

Axalta Coating Systems Ltd.	Comerica Incorporated
Globus Medical Inc Class A	Janus International Group, Inc.
Matador Resources Company	NNN REIT, Inc.
Signet Jewelers Limited	Western Alliance Bancorp
Zions Bancorporation, N.A.	

Source: FactSet

### Deletions From Portfolio

Capri Holdings Limited	Coherent Corp.
ExlService Holdings, Inc.	Meritage Homes Corporation
PDC Energy, Inc.	Southwest Gas Holdings, Inc.
Watsco, Inc.	iShares Russell 2000 Value ETF

Source: FactSet

## VAUGHAN NELSON EQUITY TEAM

### PORTFOLIO MANAGERS



**Chris Wallis, CFA, CPA**  
**CEO and CIO**  
**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



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

- Began his 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

### DOMESTIC RESEARCH



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

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



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

- Began investment career in 2012
- Joined Vaughan Nelson in 2022
- 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



**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

### 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

### Global SMID Cap

- Benchmark against the MSCI ACWI SMID Cap Index
- Generally 40 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.

# SMALL CAP VALUE PORTFOLIO COMPOSITE RETURNS

December 31, 1999 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)	R2000V Index	No. of Portfolios	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. R2000V Index (3-Yr Anlzd)
YTD 2023	10.14%	9.33%	-0.53%	59	N/A	2,253	12,643	14,859	20.22%	22.83%
2022	-9.09%	-10.01%	-14.48%	61	0.19%	1,909	11,720	13,566	23.96%	27.27%
2021	32.54%	31.26%	28.27%	67	0.26%	2,340	13,490	15,481	21.82%	25.00%
2020	9.82%	8.73%	4.63%	64	1.16%	2,571	12,690	14,052	23.18%	26.12%
2019	25.95%	24.72%	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%	-3.52%	-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%

## 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 creation and inception 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, LLC. **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 gross portfolios 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 Chris Wallis and Jim Eisenman from 3/31/22; Chris Wallis, Scott Weber, Dennis Alff, and Chad Fargason from 9/30/13; Chris Wallis and Scott Weber from 6/30/04; 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 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. **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. 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 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 Small Cap Value composite has had a performance examination for the periods 1/1/98 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, 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.

\* 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 Small Cap Value GIPS Report.

