

# SMALL CAP VALUE STRATEGY



## 1Q 2023 Strategy Fact Sheet

### Performance (%)

Past performance is no guarantee of future results.

	1Q 2023	1 Year	3 Years	5 Years	7 Years	10 Years	Since 12/31/1999
Portfolio (Gross)	8.00	0.09	26.56	9.63	10.62	10.88	13.50
Portfolio (Net)	7.74	-0.90	25.32	8.55	9.52	9.79	12.40
Russell 2000 Value Index	-0.66	-12.96	21.01	4.55	7.86	7.22	8.65

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

### Manager Commentary

#### Market Overview

Slowing economic growth, falling inflationary pressures, and developing stress in the banking system were dominant factors in the first quarter of 2023. These factors led to a divergence in equity markets with value indices materially underperforming growth indices across all market capitalizations. During Q1, the S&P 500 Index rose 7.50% while the Russell 2000 Value Index fell 0.66%. International equity markets outperformed U.S. equity markets during the quarter with MSCI EAFE Index rising 7.65%.

With sequential growth set to slow dramatically in both Q1 and Q2 of 2023, the U.S. earnings recession that began in Q4 2022 is likely to become a broader economic recession in the short term. Typically, banking stress develops once we are well into a recession as the ability for borrowers to service debt becomes impaired. Given the rapid increase in interest rates, regional banks are already under tremendous pressure despite credit costs remaining well below historical norms. While we believe the Federal Reserve's interest rate hiking cycle is largely in the rear-view mirror, we suspect we are still in the early stages of experiencing rising credit losses. The developing strains in the banking system will only enhance the lagged effects of rising interest rates, which were set to materially impair economic activity and availability of liquidity during 2023.

Further risks to the economy and capital markets will be determined by the negative reinforcing elements of the pending recession, declining liquidity, and rising credit losses offset by any fiscal and monetary policy responses. Although inflation in the U.S. should decelerate to approximately 4% by Q3, sticky inflationary pressures and rising federal deficits may limit both fiscal and monetary policy responses should the economic slowdown or market stresses become severe.

#### 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, Communication Services, Consumer Staples, and Consumer Discretionary.

#### Contributors to Performance

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

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

# 1Q 2023 SMALL CAP VALUE STRATEGY PORTFOLIO

## Portfolio Characteristics

	Portfolio	Russell 2000 Value Index
Number of Holdings	67	1,363
Wtd. Avg. Mkt. Cap (\$B)	4.83	2.36
Price/Book	2.27	1.24
Est. 3-5 Yr. EPS Growth (%)	12.00	9.40
P/E NTM	13.61	10.90
ROA (%)	7.84	1.80
ROE (%)	18.54	6.22
Dividend Yield (%)	1.61	2.27

Source: FactSet

## Risk Reward\*

	Portfolio	Russell 2000 Value Index
Beta	0.85	1.00
Sharpe Ratio	0.38	0.13
Information Ratio	0.75	N/A
R-Squared	0.93	1.00
Standard Deviation (%)	21.65	24.49

\* Annualized 5-years ending 3/31/2023.

Source: eVestment

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

	Portfolio	Russell 2000 Value Index
Industrials	33.86	14.05
Information Technology	16.61	6.05
Financials	12.98	26.52
Consumer Discretionary	12.25	11.43
Materials	6.05	4.32
Real Estate	3.86	10.62
Health Care	3.75	9.64
Utilities	3.28	5.11
Energy	3.04	6.40
Consumer Staples	2.77	2.78
Communication Services	1.55	3.02

\* Excludes 8.15% 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	4.45	Cboe Global Markets Inc	2.38
Element Solutions Inc	3.66	Univar Solutions Inc	2.32
WNS Holdings Ltd	3.08	Franklin Electric Co Inc	2.30
GATX Corp	2.99	International Game	2.27
Rambus Inc	2.66	Fabrinet	2.25

\* Excludes 8.15% cash.

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

Source: FactSet

## Additions To Portfolio

Mativ Holdings, Inc.	Skyline Champion Corp.
TEGNA, Inc.	Wolverine World Wide, Inc.

Source: FactSet

## Deletions From Portfolio

FMC Corporation	Ritchie Bros. Auctioneers Incorporated
SouthState Corporation	Southwestern Energy Company

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**

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



**Tyler Fry, CFA**  
**Vice President**

- Began investment career in 2014
- Joined Vaughan Nelson in 2016
- BBA, Southern Methodist University, 2014
- BS, Southern Methodist University, 2014



**Sundeep Khanna, CFA**  
**Vice President**

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



**Earl Lee, CFA**  
**Associate**

- Began investment career in 2012
- Joined Vaughan Nelson in 2022
- MBA, The University of Texas at Austin, 2012
- BS, Purdue University, 2007



**Adam Rich, CFA**  
**Vice President**

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



**Corrine Richter**  
**Associate**

- Began financial and investment career in 2021
- Joined Vaughan Nelson in 2021
- MSA, Brigham Young University, 2021

## 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: \$14.2 Billion\*
- Domestic equity, international equity, and fixed income strategies
- 48 employees
- 21 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 \$2.1 billion as of 3/31/23

## VAUGHAN NELSON EQUITY STRATEGIES

Select	<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>
Value Opportunity	<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>
Small Cap Value	<ul style="list-style-type: none"><li>• Benchmark against the Russell 2000® Value Index</li><li>• Generally 55 to 85 positions</li></ul>
International Small Cap	<ul style="list-style-type: none"><li>• Benchmark against the MSCI EAFE Small Cap Index</li><li>• Generally 60 to 80 positions</li></ul>
Emerging Markets	<ul style="list-style-type: none"><li>• Benchmark against the MSCI Emerging Markets SMID Index</li><li>• Generally 60 to 80 positions</li></ul>
Global SMID Cap	<ul style="list-style-type: none"><li>• Benchmark against the MSCI ACWI SMID Cap Index</li><li>• Generally 40 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

December 31, 1999 through March 31, 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	8.00%	7.74%	-0.66%	62	N/A	2,053	12,187	14,244	19.92%	22.70%
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%	8.60%	4.63%	64	1.16%	2,571	12,690	14,052	23.18%	26.12%
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%

## 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 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 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 12/31/22. 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 Select 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 \$2.1 billion as of 3/31/23. This information is supplemental to the Small Cap Value GIPS Report.

