

# INTERNATIONAL SMALL CAP STRATEGY



## 2Q 2023 Strategy Fact Sheet

### Performance (%)

Past performance is no guarantee of future results.

	2Q 2023	YTD	1 Year	3 Years	5 Years	7 Years	Since 11/30/2013
Portfolio (Gross)	-1.04	2.90	4.66	5.01	1.27	6.87	4.65
Portfolio (Net)	-1.28	2.39	3.63	3.98	0.17	5.66	3.41
MSCI EAFE Small Cap Net Index	0.58	5.53	10.18	5.70	1.30	5.74	4.50

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

### Manager Commentary

#### Market Overview

It was a mildly positive quarter for the International Small Cap universe. U.S. dollar strength detracted from USD denominated performance this quarter. This currency-driven detraction is likely short-lived, as the inflation trajectory remains quite different for the U.S. compared to other geographies, particularly Europe, where it seems more entrenched, and outcomes exceeded expectations consistently over the quarter.

The top performing sector was Utilities, and the second was Financials, which is to some extent an unusual pairing, given their disparate sensitivity to interest rates. It is also curious that another bond-proxy sector, Real Estate, underperformed Utilities by approximately 8% during the quarter. More than an interest-rate driven outcome, what we likely experienced during the quarter was a positive reaction from the financial sector to the calming of first quarter concerns (e.g., SVB, First Republic), and a positive reaction from utilities related to lower energy costs.

Geographically, the most remarkable occurrence was the weakness of Hong Kong resulting from the economic weakness evident in China during the quarter, with not only the critical residential sector failing to stem its decline, but also the reopening narrative facing economic data showing slowdown.

The quarter saw the addition of six new companies and eight exits. The additions primarily include undervalued earnings growth companies in Germany, Japan, and Hong Kong.

We can envision a scenario in which China exits last year's tightening stance, continental Europe and the UK still have to defeat the inflation (the UK is slightly behind the curve), and Japan may soon see some weak form of tightening.

Another aspect that we see as positive for the portfolio is the return of the mergers and acquisitions market (M&A) for small- and mid-size companies. Although levels of interest rates and debt availability continue to be elevated for the time being, the animal spirit has returned both for strategic and more importantly for private equity. This is usually positive for our markets and our portfolios specifically.

Additionally, the interest rate differentials might mean additional weakness in the U.S. dollar, something that drives appetite for non-U.S. investment.

#### Portfolio Positioning

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

#### Contributors to Performance

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

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

## 2Q 2023 INTERNATIONAL SMALL CAP STRATEGY PORTFOLIO

### Portfolio Characteristics

	Portfolio	MSCI EAFE Small Cap Net Index
Number of Holdings	77	2,267
P/E NTM	13.85	12.48
Price/Cash Flow	10.38	6.89
Wtd. Avg. Mkt. Cap (\$B)	3.00	2.68
Est. 3-5 Yr. EPS Growth (%)	14.35	13.56
Dividend Yield (%)	2.34	3.17
Net Debt/Equity	0.17	0.57

Source: FactSet

### Risk Reward\*

	Portfolio	MSCI EAFE Small Cap Net Index
Beta	0.95	1.00
Sharpe Ratio	-0.02	-0.01
Information Ratio	-0.01	N/A
R-Squared	0.97	1.00
Standard Deviation (%)	18.98	19.66

\* Annualized 5-years ending 6/30/2023.

Source: eVestment

### Top Ten Holdings\* 1

	Country	Sector	% of Total Portfolio *
Marlowe PLC	United Kingdom	Industrials	2.85
TKC Corp	Japan	Industrials	2.22
Kato Sangyo Co Ltd	Japan	Consumer Staples	2.12
Internet Initiative Japan Inc	Japan	Communication Services	2.06
Zenkoku Hosho Co Ltd	Japan	Financials	2.03
Bunzl PLC	United Kingdom	Industrials	1.90
CVS Group PLC	United Kingdom	Health Care	1.88
JTC PLC	Jersey	Financials	1.87
DO & CO AG	Austria	Industrials	1.83
Atea ASA	Norway	Information Technology	1.83

\* Excludes 5.34% cash.

1 Performance holdings subject to change.

Source: FactSet

### Portfolio Sector Weightings (%)\* 1

	Portfolio	MSCI EAFE Small Cap Net Index
Industrials	31.36	23.33
Information Technology	19.53	10.21
Financials	10.78	11.42
Consumer Discretionary	10.38	12.95
Health Care	7.96	6.67
Consumer Staples	6.23	6.18
Real Estate	4.76	10.07
Communication Services	4.62	4.17
Materials	3.52	9.33
Energy	0.86	2.76
Utilities	-	2.91

\* Excludes 5.34% cash. Due to rounding, totals may not equal 100%.

1 Performance holdings subject to change.

Source: FactSet

### Portfolio Geographic Weightings (%)\*

	Portfolio	MSCI EAFE Small Cap Net Index
Japan	33.61	31.93
Europe ex. UK	25.17	24.51
United Kingdom	24.56	15.02
Asia/Pacific ex. Japan	8.34	14.56
Nordic	8.32	10.99
Other	-	2.01
United States	-	0.98

\* Excludes 5.34% cash.

Source: FactSet

## VAUGHAN NELSON EQUITY TEAM

### PORTFOLIO MANAGERS



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

- Began his 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 his 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

### INTERNATIONAL RESEARCH



**Masa Matsumura, Ph.D.**  
**Vice President**

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



**Zhongjie (Matt) Wang**  
**Associate**

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



**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**  
**Chief Risk Officer**

- 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: \$15.2 Billion\*
- Domestic equity, international equity, and fixed income strategies
- 49 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 \$2.3 billion as of 6/30/23.

## VAUGHAN NELSON EQUITY STRATEGIES

### 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

### 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

## OUR MISSION

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

# INTERNATIONAL SMALL CAP COMPOSITE RETURNS

November 30, 2013 through June 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 EAFE Small Cap Net Index	Number of Ports.	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. MSCI EAFE Small Cap Net Index (3-Yr Annlzd)
YTD 2023	2.90%	2.39%	5.53%	5 or fewer	N/A	30	12,897	15,185	18.12%	18.62%
2022	-25.54%	-26.30%	-21.39%	5 or fewer	N/A	35	11,720	13,566	21.44%	22.54%
2021	13.98%	12.86%	10.10%	5 or fewer	N/A	40	13,490	15,481	18.44%	19.19%
2020	17.09%	15.95%	12.34%	5 or fewer	N/A	36	12,690	14,052	19.76%	20.27%
2019	25.39%	23.85%	24.96%	5 or fewer	N/A	27	11,346	13,064	12.48%	11.89%
2018	-14.86%	-16.01%	-17.89%	5 or fewer	N/A	28	N/A	N/A	12.48%	12.86%
2017	32.02%	30.31%	33.01%	5 or fewer	N/A	36	N/A	N/A	10.89%	11.60%
2016	6.54%	5.15%	2.18%	5 or fewer	N/A	486	N/A	N/A	11.28%	12.12%
2015	0.19%	-1.14%	9.59%	5 or fewer	N/A	672	N/A	N/A	N/A	N/A
2014	-1.28%	-2.57%	-4.95%	5 or fewer	N/A	481	N/A	N/A	N/A	N/A
2013*	1.81%	1.71%	2.34%	5 or fewer	N/A	476	N/A	N/A	N/A	N/A

## NOTES AND DISCLOSURES

### NOTES

**COMPOSITE DESCRIPTION.** Effective 10/1/2019, this composite is comprised of all fee-paying, discretionary International Small Capitalization portfolios in excess of \$1 million under management. Prior to 10/1/19, the composite consisted of all non-restricted, fully discretionary, taxable and tax-exempt accounts which were managed in accordance with the International Small Capitalization Value strategy at Advisory Research, Inc. Effective 10/1/19, the strategy name was changed to International Small Capitalization in order to appropriately reflect the characteristics of the strategy. The International Small Capitalization strategy primarily invests in non-U.S. equities and principally in developed markets with a market capitalization generally within the range of the MSCI EAFE Small Cap Index (Europe, Australasia, Far East). The index is a free-float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding U.S. and Canada. 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 11/30/13. **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.** International Small Capitalization Fee Schedule: 1.00% on the first \$25 million, .85% on the next \$75 million, .80% on the remainder. **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 Marco Priani and Kevin Ross from 11/30/13. Performance prior to 10/1/19 was generated by Messrs. Priani and Ross while employed by Advisory Research Inc. **COMPOSITE NOTES.** Effective 10/1/2019, 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 3/31/23. 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 International Small Cap composite has had a performance examination for the periods 11/30/13 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.

\* Partial year. Inception date of 11/30/13.

\*\* 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 \$2.3 billion as of 6/30/23. This information is supplemental to the International Small Cap GIPS Report.

† Total firm assets and entity assets are shown as N/A as the strategy was previously managed at Advisory Research, Inc. These disclosures for the predecessor firm would not be meaningful and, the strategy did not contribute to Vaughan Nelson's assets historically.

