



## **Vaughan Nelson Investment Management, L.P.**

600 Travis, Suite 3800  
Houston, Texas 77002  
713.224.2545  
www.vaughannelson.com

**June 30, 2020**

This Brochure provides information about the qualifications and business practices of Vaughan Nelson Investment Management, L.P. (“Vaughan Nelson”, the “Company” or the “Firm”). If you have any questions about the contents of this Brochure, please contact us at 713.224.2545. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Vaughan Nelson is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide a prospect/client with the information from which you should determine whether or not to hire or retain an Adviser.

Additional information about Vaughan Nelson, including a current copy of our Brochure, is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



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Vaughan Nelson Investment Management is required by the SEC to deliver to you, annually, a summary of material changes to Form ADV Part 2A (the "Brochure") which contains information about our firm and our business practices and which is filed with the SEC each year. The last annual update to our Brochure which was offered to you was in March 2020.

### **Item 2 -- Material Changes**

The following changes, which we believe to be material, have been made to the Brochure dated March 30, 2020.

1. None.

If you would like to obtain a copy of the updated Brochure dated June 30, 2020 you can either obtain it from the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or you can contact Richard Faig, Chief Compliance Officer at (713)224-2545 or [rbfaig@vaughannelson.com](mailto:rbfaig@vaughannelson.com).

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## **Item 4 – Advisory Business**

### **Background**

Vaughan Nelson is a Houston-based investment counseling firm established in 1970 and is a wholly-owned affiliate of Natixis Investment Managers, LLC. The Firm, staffed by experienced, research-oriented investment professionals, has a 50-year history of providing comprehensive equity and fixed income investment advice to taxable and tax-free clients including foundations, endowments, corporations, pensions, public entities, insurance companies, mutual funds and high net worth individuals. The Firm expanded its equity capability to include International/Global investing in October 2019 with a team that offices at 180 N. Stetson Avenue, Suite 5525, Chicago, IL 60601. The Firm’s sole focus is providing investment management services for equity and fixed income portfolios totaling ~\$13.1 billion as of 12/31/2019.

### **Ownership**

Vaughan Nelson is wholly-owned by Natixis Investment Managers, LLC, which, through intermediate subsidiaries, is part of Natixis Investment Managers SA, an international asset management group based in Paris, France, that, in turn, is owned by Natixis SA, a French investment banking and financial services firm. Natixis SA is 72% owned by BPCE, France’s second largest banking group, with the remaining 29% of Natixis SA being publicly owned, with shares listed on the Euronext exchange in Paris. BPCE is equally owned by two retail banking networks: Banques Populaires (BP) and Caisses d’Epargne (CE). Vaughan Nelson operates autonomously and provides investment management services independently with its own research, investment team and trading.

### **Primary Business**

The primary business of Vaughan Nelson is the management of client assets in equity and/or fixed income securities on an ongoing, continuous basis. Normally, Vaughan Nelson is engaged by clients (both institutional and individual) to provide investment management services for their own account separate from other clients (a “separate account”) where investment decisions are implemented on a fully-discretionary basis in accordance with the client’s guidelines and restrictions. Depending on client instruction, these services are provided either with or without consideration to the overall financial situation of the client (e.g. tax considerations, liquidity needs, etc.).

Vaughan Nelson also serves as advisor/sub-advisor to both affiliated and unaffiliated mutual funds where investment decisions are implemented on a fully discretionary basis, subject to the requirements of the Investment Company Act of 1940 and restrictions contained within the related Prospectus and Statement of Additional Information for each fund.

Finally, Vaughan Nelson participates as a non-discretionary subadvisor to wrap programs where the investment advice is provided to affiliated and unaffiliated sponsors (the investment advisor) who then have discretion over the implementation, including trade execution, of the investment advice. In certain circumstances the investment advisor will communicate trade appetite back to

Vaughan Nelson for execution on a ‘stepped-out’ basis. It is the responsibility of the affiliated and unaffiliated sponsors of the wrap programs to take into consideration the financial situation and any needs of the ultimate client. For this service, Vaughan Nelson is paid a portion of the wrap fee paid by the client to the program sponsor.

Performance differences between all Vaughan Nelson’s clients will occur due to differences in cash availability, investment restrictions, account sizes, trade sequencing (see Section 9 Brokerage Practices) and other factors.

Discretionary and Non-Discretionary assets (inclusive of those for which a model is provided but not included in RAUM of \$1,241,849,000) as of 09/30/19 are broken down as follows:

Discretionary Assets	\$11,828,489,000
Non-Discretionary Assets	<u>\$ 1,249,228,000</u>
Total Assets	<u>\$13,077,717,000</u>

### **Business Continuity**

For purposes of business continuity, Vaughan Nelson’s primary information and data are hosted in a third-party, Austin, Texas based data center facility (~150 miles from Houston) with high levels of both physical security and redundant power for maximum availability. Vaughan Nelson has a layer of redundancy within our virtual server environment hosted at the data center with additional virtual failover hardware redundancy located in our Houston, Texas office space. All of these redundant systems are kept in sync throughout the day on a 10-minute interval for the trading and portfolio accounting systems and a near real-time interval for all network drives and files. All employees are able to work remotely within this infrastructure in order to continue operations when the Business Continuity Plan is activated (e.g. hurricane, pandemic). Vaughan Nelson also maintains an office space “hot-site” at company leased office space in Austin, Texas should the need arise. The Austin facility houses the infrastructure necessary to recover (i.e. phone, connectivity to data center, workstations, internet access, etc.) in the event physical access to the Houston facility is lost.

### **Item 5 – Fees and Compensation**

Vaughan Nelson’s fees for investment advisory services are generally based on an annual rate, as indicated for the strategies listed below, and charged as a percentage of the total market value of assets managed or advised at each calendar quarter end.

Vaughan Nelson also enters into investment advisory contracts which stipulate a base fee, as a percentage of assets, and an incentive fee based upon investment returns (See Item 3 – Performance Based Fees and Side-By-Side Management).

In certain circumstances, client funds will be invested in mutual funds. Affiliated mutual funds advised/sub-advised by Vaughan Nelson are used to provide efficient investment in the Firm’s

strategies (particularly for smaller clients) while unaffiliated funds are primarily used to provide broader asset class / geographical exposures. In addition, client funds, in certain circumstances, will be invested in Exchange Traded Funds (“ETFs”) which represent either a strategy’s benchmark (to remain more fully invested), or another avenue to provide broader asset class / geographical exposure. Both mutual funds and ETFs are subject to their own fees and expenses which are reflected in the net asset value of the security. These fees and expenses are in addition to any explicit fee charged by Vaughan Nelson. Consequently, for purposes of calculating Vaughan Nelson’s management fee, the market value of mutual funds (including those advised/subadvised by Vaughan Nelson for which the mutual fund pays the Firm a fee) and ETFs (excluding those representing a strategy’s benchmark) will be deducted from the market value of a client’s account prior to the calculation of Vaughan Nelson’s management fee.

Vaughan Nelson has negotiated fee schedules for certain clients which differ from those shown in the schedules that follow.

Fees are normally payable in advance for each quarter. Clients can elect to either be billed directly for our fees, or to authorize Vaughan Nelson to send bills directly to the custodian of a client’s account for payment.

Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon thirty (30) days written notice of termination, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

## **STRATEGY MANAGED**

### **Equity**

#### *Small Cap Value*

1.00% on the first	\$ 25,000,000
.85% on the next	\$ 25,000,000
.75% on amounts over	\$ 50,000,000

#### *Value Opportunity (small/mid cap)*

.85% on the first	\$ 10,000,000
.75% on the next	\$ 15,000,000
.70% on the next	\$ 25,000,000
.65% on amounts over	\$ 50,000,000

#### *Select (concentrated all cap)*

1.00% on the first	\$ 25,000,000
.85% on the next	\$ 25,000,000
.75% on amounts over	\$ 50,000,000

International Small Cap

1.00% on the first	\$ 25,000,000
.85% on the next	\$ 75,000,000
.80% on amounts over	\$ 100,000,000

Emerging Markets SMID

1.10% on the first	\$ 25,000,000
1.00% on amounts over	\$ 25,000,000

Global SMID

.90% on the first	\$ 10,000,000
.85% on the next	\$ 15,000,000
.80% on the next	\$ 25,000,000
.75% on the next	\$ 50,000,000
.65% on amounts over	\$ 100,000,000

**Fixed Income**

Core Fixed Income & Intermediate Fixed Income

.35% on the first	\$ 25,000,000
.25% on the next	\$ 75,000,000
.20% on amounts over	\$ 100,000,000

Limited Maturity Fixed Income

.20% on the first	\$ 25,000,000
.10% on the next	\$ 25,000,000
.05% on amounts over	\$ 50,000,000

Municipal Fixed Income

.35% on the first	\$ 25,000,000
.25% on amounts over	\$ 25,000,000

Vaughan Nelson's fees, as outlined above, are exclusive of brokerage commissions, transaction costs, and other related costs and expenses which shall be incurred by the client (See Item 9 – Brokerage Practices for the factors considered in selecting or recommending broker-dealers for client transactions and determining the reasonableness of broker compensation/commissions). However, in the case of wrap programs, the sponsor's program fee will include any commissions that would otherwise be charged by the sponsor's affiliated broker or another designated broker. Finally, the client will incur custodial and/or consultant fees as stipulated within an agreement entered into by the client and such parties.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

Vaughan Nelson has entered into a number of investment advisory contracts which include a base fee, as a percentage of assets, and a performance fee based upon investment returns that include both realized and unrealized capital gains and losses (“Performance Fee Accounts”).

Portfolio Managers at Vaughan Nelson manage both Performance Fee Accounts and accounts for which Vaughan Nelson receives only an asset-based fee in what is known as side-by-side management.

This side-by-side management and the receipt of performance fees by Vaughan Nelson creates the potential for a conflict of interest, as Vaughan Nelson could benefit to the extent it disproportionately allocated investment opportunities or dedicated more of its management time to those clients with performance fee arrangements. In addition, performance fees can create an incentive for Vaughan Nelson to make investments that are riskier or more speculative on behalf of such clients than the investments it might make in the absence of such performance fees. Vaughan Nelson has adopted policies and/or procedures that are designed to address each of these conflicts resulting in the equitable treatment of all of Vaughan Nelson’s clients. For example, investment decisions for equity strategies are implemented concurrently for all client accounts (both performance and non-performance) pursuing the same strategy in a predetermined manner (see further discussion in Item 9 - Brokerage Practices). This serves to mitigate the ability to ‘favor’ Performance Fee Accounts.

Performance fees are charged in accordance with Rule 205-3 under the Investment Advisers Act of 1940.

See Item 8 – Code of Ethics below for a discussion of conflicts that arise when Vaughan Nelson manages employee (or firm proprietary) accounts side-by-side with client accounts.

## **Item 7 – Types of Clients**

Vaughan Nelson provides portfolio management services to a broad spectrum of clients including individuals, high net worth individuals, family offices, wrap platforms, corporations and corporate pension and profit-sharing plans (ERISA), charitable institutions, foundations, endowments, state and local entities, registered mutual funds, private investment funds, sovereign wealth funds, foreign funds such as UCITS and SICAVs, and other U.S. and international institutions.

For some clients (separate accounts, mutual funds and wrap platforms), Vaughan Nelson’s portfolio management services are provided in a sub-advisory capacity to the advisor who, in turn, has an investment management agreement with the ultimate client.

Vaughan Nelson generally manages accounts in excess of \$3 million.



## Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Vaughan Nelson provides both equity and fixed income management. Investing in securities involves risk of loss that clients should be prepared to bear.

### **EQUITY**

Vaughan Nelson’s equity investment objective is to seek long-term capital appreciation. Vaughan Nelson’s philosophy is to identify temporary information and liquidity inefficiencies in the respective market capitalization universes that provide opportunities to invest in companies at valuations that Vaughan Nelson believes are materially below their long-term intrinsic value. Put another way, a longer time horizon (~3 years) allows Vaughan Nelson to exploit shorter-term volatility and poor shorter-term price discovery.

<b><i>Strategy</i></b>	<b><i>Benchmark</i></b>
Small Cap Value	Russell 2000 Value
Value Opportunity (smid value)	Russell Mid Cap Value / Russell 2500 Value
Select (focused all cap > \$1B)	Russell 3000 / S&P 500
Select Fund (enhanced Select for an affiliated mutual fund)*	S&P 500
International Small Cap	MSCI EAFE Small Cap
Emerging Markets SMID	MSCI Emerging Markets SMID
Global SMID	MSCI ACWI SMID

\*This strategy is managed in a fashion similar to the Select strategy in terms of long equities. However, in addition, the strategy has an ability to opportunistically utilize a broader set of instruments, such as options, convertible securities, preferred stock, the use of shorting, and debt in expressing its view on a company and reaching its investment objective.

Vaughan Nelson primarily employs a fundamental, bottom-up investment process. We utilize a disciplined valuation methodology combined with fundamental research to take advantage of the inefficiencies in the universes. Vaughan Nelson believes these inefficiencies enable an active manager, who has a disciplined process executed by a highly skilled and motivated team, to generate returns in excess of the related benchmark. While the investment process is not driven by macro issues, the portfolio managers have a construct of the macro environment in an effort to minimize macro uncertainty and any impact it can have on stock selection and portfolio construction.

Our approach and methodology target a 50% return over a three-year holding period from every position in the portfolio. The Firm couples this targeted return objective with robust idea generation to identify what we believe to be favorable asymmetrical probabilities to achieve the return. In seeking investment ideas for the portfolio, Vaughan Nelson focuses on three distinct investment categories (see below), each of which provides a different avenue by which our 50% targeted return might be generated. There can be no assurance the targeted return objective will be realized with respect to any or all investments. Further, the return achieved could be lower than the return of the strategy's benchmark index. The approach is implemented by a highly experienced, close-knit and incented investment team.

All investments in the equity strategies fall into one of the three distinct investment categories. Vaughan Nelson has formalized the definition of each category and typically uses the following language throughout its marketing material and quarterly reporting:

- Undervalued Earnings Growth -- Earnings growth from prior investments and redeployment of future earnings is not reflected in the current valuation
  - Management team with strong capital allocation track record
  - Earn same to higher rate of return on redeployed earnings avoiding multiple compression
  - Redeployment can be organic or inorganic
  - End markets have sufficient growth to absorb capital deployed without escalating competitive pressures
  - Management understands limit of reinvestment and has other means and willingness to return excess cash to shareholders
  - Corporate hurdle rates for projects are not in conflict with Vaughan Nelson's return objective
- Undervalued Assets -- Companies that have an underpriced asset, valued at a discount, that with an expected catalyst will be repriced to reflect its full market value
  - Cyclical industries at trough valuations with identifiable industry inflection
  - Corporate asset and/or balance sheet restructuring
  - End markets are stable to improving across cycles, not in secular decline
  - Underlying return characteristics and competitive dynamics are stable to improving avoiding "value traps"
- Undervalued Yield -- Companies with an attractive dividend yield (cash flow) and minimal basis risk
  - Dividend Yield is approximately 10% or greater
  - Dividend is stable and recurring

- Balance sheet not being liquidated to pay the dividend
- Stable industry dynamics
- Typically occur in a deteriorating credit environment where levered investors are forced to de-risk portfolio and liquidate holdings. Typical examples are Mortgage REITs, Business Development Company (“BDC”), and corporate MLP

Due to our ability to allocate the portfolio across the three (3) categories, the approach provides an “all weather” aspect to the portfolio enabling us to potentially add returns in excess of the benchmark through all phases of business and credit cycles while avoiding mean reversion. Thus, the process allows Vaughan Nelson to try and take advantage of the market rather than being subject to the market.

The sustainability of our investment philosophy and what we believe is our competitive advantage is evidenced by the performance histories of our strategies.

Investing in Vaughan Nelson’s equity strategies present the following risks (alphabetical):

*Equity Securities Risk:* The value of the strategy’s individual or collective investments in equity securities could be subject to unpredictable declines and periods of below-average performance. Equity securities include common stock, preferred stocks, warrants, securities convertible into common and preferred stocks and other equity-like interests in an entity. In the event an issuer is liquidated or declares bankruptcy, the claims of owners of the issuer’s debt and preferred stock generally take precedence over the claims of those who own common stock.

*Emerging Markets.* Emerging market countries tend to have more government exchange controls, more volatile interest and currency exchange rates, less market regulation, and less developed economic, political and legal systems than those of more developed countries. Emerging securities markets typically have substantially less volume than U.S. markets, securities in these markets are less liquid, and their prices often are more volatile than those of comparable U.S. companies. Emerging market countries or developing economies may have restrictions on the ability to repatriate investment income or capital. Some of the currencies in emerging markets could experience devaluations relative to the U.S. Dollar which could significantly impact the value of an investment. Certain developing countries face serious exchange constraints. In addition, future Government actions could have a significant effect on economic conditions in emerging and developing countries, which could affect the investment in private sector companies.

*Exchange Rate Risk:* Changes in foreign exchange rates will affect the value in U.S. Dollars of any foreign currency-denominated securities and other investments held by a Fund. Exchange rates are influenced generally by the forces of supply and demand in the foreign currency markets and by numerous other political and economic events occurring outside the United States, many of which may be difficult, if not impossible, to predict.

*Foreign Securities Risk (including American Depository Receipts (“ADRs”) and foreign or emerging market companies trading on a U.S. Exchange):* Investments in the securities of foreign issuers and other non-U.S. investments involve risks in addition to those normally associated with U.S. issuers. Foreign investments are subject to risks of foreign political and economic instability, adverse movements in foreign exchange rates, the imposition or tightening of exchange controls and limitations on the repatriation of foreign capital and less rigorous accounting and reporting standards. Other risks stem from potential changes in governmental attitude or policy toward private investment, which in turn raises the risk of nationalization, increased taxation or confiscation of foreign investors’ assets. Foreign securities typically trade less frequently, with lower volume but may exhibit greater price volatility than U.S. securities. Brokerage commissions and other transaction costs on foreign securities exchanges are generally higher than in the United States. Foreign investments are subject to withholding taxes on their dividends.

*Liquidity Risk:* We might not be able to find a buyer for your investments when we seek to sell them or to receive the price we expect. Liquidity issues can make it difficult to value a portfolio’s investments.

*Management Risk:* A strategy used by the portfolio managers could fail to produce the intended results or could cause your portfolio to incur losses.

*Market Disruption, Health Crises, Terrorism and Geopolitical Risk.* Accounts are subject to the risk that war, terrorism, global health crises or similar pandemics, and other related geopolitical events may lead to increased short-term market volatility and have adverse long-term effects on world economies and markets generally, as well as adverse effects on issuers of securities and the value of an account’s investments.

*Market/Issuer Risk:* The market value of a security moves up and down, sometimes rapidly and unpredictably, based upon overall market and economic conditions, as well as a number of reasons that directly relate to the issuers, such as management performance, financial condition and demand for the issuer’s products and/or services.

*Non-Diversified Strategy (i.e. Vaughan Nelson Select Strategy):* A non-diversified strategy is more susceptible to financial, market and economic events affecting the particular issuers and industry sectors in which the strategy invests and could be impacted disproportionately by the poor performance of relatively few stocks or even a single stock and, therefore, be more volatile or risky than a lesser concentration of investments.

*REITs Risk:* Investments in the real estate industry, including REITs, are particularly sensitive to economic downturns and are sensitive to factors such as changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents and the management

skill and creditworthiness of the issuer. Companies in the real estate industry could also be subject to liabilities under environmental and hazardous waste laws. In addition, the value of a REIT is affected by changes in the value of the properties owned by the REIT or securing mortgage loans held by the REIT. Many REITs are highly leveraged, increasing their risk. The strategy will indirectly bear its proportionate share of expenses, including management fees, paid by each REIT in which it invests.

*Small-and Mid-Cap Companies Risk:* Small-cap companies are more likely than larger companies to have limited product lines, markets or financial resources, or to depend on a small, inexperienced management group. Stocks of these companies often trade less frequently and in limited volume and their prices can fluctuate more than stocks of larger companies. Stocks of small-cap companies can, therefore, be more vulnerable to adverse developments than those of larger companies.

*Value Stocks Risk:* Value stocks can perform differently from the market as a whole and from other types of stocks. Value stocks also present the risk that their lower valuations fairly reflect their business prospects and investors will not agree that the stocks represent favorable investment opportunities, and they can fall out of favor with investors and underperform growth stocks during any given period.

Additional risks associated with the Select Fund strategy as included within the associated Prospectus and SAI include:

*Derivatives Risk:* Derivatives are subject to changes in the value of the underlying asset or indices on which such transactions are based. There is no guarantee that the use of derivatives will be effective or that suitable transactions will be available. Even a small investment in derivatives gives rise to leverage risk and can have a significant impact on the exposure to securities market's values, interest rates or currency exchange rates. It is possible that the available liquid assets will be insufficient to support obligations under derivatives positions. The use of derivatives for other than hedging purposes could be considered a speculative activity and involves greater risks than are involved in hedging. The use of derivatives can incur losses greater than those which would have occurred had derivatives not been used. There is also the risk of the inability to terminate or sell a derivatives position at an advantageous time or price.

*Leverage Risk:* Use of derivative instruments involves leverage. Taking short positions in stocks also results in a form of leverage. Leverage is the risk associated with securities or practices that multiply small index, market or asset price movements into larger changes in value. The use of leverage increases the impact of gains and losses on a fund's returns and can lead to significant losses if investments are not successful.

*Short Sale Risk:* Short sales can increase volatility and could lower the return, or result in losses, which are potentially unlimited. The inability to borrow securities in connection with a short sale at an advantageous time or price, can limit the ability to pursue a short sale strategy or could cause losses. The use of short sales also results in leverage risk.

### Portfolio Turnover / Trading

Generally, each strategy intends to invest for long-term purposes. Increases in a strategy's portfolio turnover will result in greater brokerage commissions and other transaction costs which will be borne directly by the client, thereby decreasing the client's total return. In the past, the various strategies have experienced portfolio turnover in some years that could be considered high (>100%). This results in the realization of gains; some of which will be short-term in nature. We anticipate that each strategy's portfolio turnover rate will vary from time to time depending on the volatility of economic and market conditions. Turnover percentages reflect the Firm's trading around existing positions (adds/trims) in response to market volatility. The Firm anticipates turning over approximately 33% of the 'names' within a strategy on an annual basis. The movement in/out of iShares (ETFs related to a strategy's benchmark) also influences turnover as cash balances are equitized.

It is impossible to predict with certainty whether future portfolio turnover rates will be higher or lower than those experienced during past periods. Portfolio turnover will not be a limiting factor when each strategy's Portfolio Manager believes that portfolio changes are appropriate.

### **FIXED INCOME**

Vaughan Nelson's fixed income investment objective is to maximize total return while preserving capital. Vaughan Nelson believes active, risk-controlled management, founded on research-driven analyses, can uncover relative values that, over the long-term, produces returns with less risk.

Our universe of fixed income investments is driven by two factors: (1) client guidelines on allowable investments, and (2) the client's relative benchmark. We invest only in the sectors included within the various investment grade benchmarks (i.e. treasuries, agencies, corporates, etc.).

Vaughan Nelson's competitive advantage is a highly disciplined philosophy and well-constructed investment process that seeks value through security selection, duration positioning, sector rotation and trading efficiencies. The extent to which each of these avenues is used is based upon what Vaughan Nelson anticipates is the magnitude and duration of changes in interest rates:

- Security Selection
  - Changing credit quality
  - Out of favor
  - Structure
  - Inefficient pricing
- Sector Rotation
  - Relative value among sectors
  - Event risk management
  - Historical spread vs. Treasuries
  - Economic cycle outlook

- Duration/Yield Curve Positioning
  - Inflation expectations
  - Monetary policy
  - Anticipating yield curve shifts
- Opportunistic Trading Efficiencies
  - Access to inventory of multiple brokers
  - Strong trading relationships
  - Electronic trading conducted only for Treasuries

All of our marketed fixed income investment strategies invest in securities rated investment grade at the time of purchase (a few accounts invest in below investment grade securities in accordance with the particular client's mandate and investment guidelines). We otherwise do not manage high yield/junk or derivative strategies. We do not invest in areas where we deem the risk to be too great for our clients' capital (e.g. exposure to higher volatility in '08-'09 market through exposure to CMOs and other problem areas). Our strategies consist of liquid securities that allow us to be more nimble throughout periods of market dislocation. Because we only invest in investment grade companies, identifying and understanding all aspects of valuation is the most important factor in our process.

Security Selection -- We attempt to exploit market inefficiencies within security pricing through analysis of current and historical valuations to seek issuers and securities where the financial fundamentals are stable/improving and where management has shown in the past that they are focused on balance sheet protection. This research typically allows us to detect improving credit fundamentals and/or inefficient pricing.

Sector Rotation -- We attempt to add value through sector management by varying the portfolio's exposure to corporate bonds, agencies, mortgages, and treasuries, depending on the Portfolio Managers' view of the macroeconomic outlook (taking into account interest rate and credit cycles) and the anticipated position of the yield curve over the next six months. Once it is determined that a security or sector could be mispriced, the Portfolio Managers will weight such securities and sectors within the portfolio to appropriately reflect their outlook.

Yield Curve Positioning/Duration -- Vaughan Nelson begins with a top-down review of the interest rate environment. Inputs into this review include business and market cycle data, inflation indicators, yield curve shape, time-risk premiums, foreign exchange and other supply and demand factors. We then apply our analysis to the yield curve to identify "sweet spots" which we believe will offer the best risk-reward tradeoffs. We attempt to anticipate interest rate movements as well as changes to the slope and shape of the yield curve for use within portfolio construction techniques which, we believe, will benefit from the anticipated changes to the yield curve (i.e. barbell, butterfly, bullet or laddered portfolio structures). We also apply our yield curve analysis to sectors, such as agency and corporate bonds to anticipate the impact on pricing therein.

Duration is a key decision in the active management of fixed income portfolios. In managing risk within portfolios, Vaughan Nelson generally limits duration exposure to +/-20% of the benchmark

(+/-50% for limited maturity portfolios). Typically, duration extension or contraction trades are made when the portfolio managers see a sustainable shift in the yield curve, as opposed to reacting to short-term yield curve changes that often are not significant and/or sustainable.

Opportunistic Trading Efficiencies -- The fixed income markets are not exchange driven like the equity markets. To be successful, a manager must have access to numerous dealer inventories and have the structure in place to make timely decisions. Vaughan Nelson benefits from having a small, highly experienced team that is able to quickly evaluate investment opportunities and risks, allowing for efficient decision making.

*Fixed Income Strategies and objectives:*

Core Fixed Income & Intermediate Fixed Income: Seeks to generate attractive risk-adjusted returns through investments in U.S. Treasury, government agency notes, government agency Mortgage Backed Securities and investment grade corporate fixed income securities

Limited Maturity/Short Duration: Seeks to maximize total return while preserving capital and providing for liquidity needs through investments in U.S. Treasury and government agency fixed income securities; maturity range 0-5 years with an average quality rating of AAA (if a client desires, A-rated or higher corporate securities can be added for an average quality rating guideline of AA or better)

Municipal: Seeks to provide high tax-free current income and consistent, long-term performance with less risk through active, risk averse management

Investing in Vaughan Nelson's fixed income strategies present the following risks (alphabetical):

*Credit Risk:* An issuer could fail financially or otherwise be unwilling or unable to meet their obligations to the holder(s) of its securities (you, the client).

*Extension Risk:* An unexpected rise in interest rates will likely extend the life of a mortgage- or asset-backed security beyond the expected prepayment time, typically reducing the security's value.

*Inflation/Deflation Risk:* The value of assets or income from investments could be worth less in the future if inflation decreases the present value of future payments. Deflation risk is the risk that prices throughout the economy decline over time - the opposite of inflation. Deflation could have an adverse effect on the creditworthiness of issuers and can make issuer default more likely, which could result in a decline in the value of a portfolio.

*Interest Rate Risk:* The value of investments will likely fall if interest rates rise. Interest rate risk generally is greater for strategies that invest in fixed-income securities with relatively longer durations than for strategies that invest in fixed-income securities with shorter durations. An economic downturn or period of rising interest rates could adversely affect



the market for fixed income securities and possibly reduce the ability to sell them, negatively impacting performance.

*Issuer Risk:* The value of securities can decline due to a number of reasons relating to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods and services.

*Liquidity Risk:* We might not be able to find a buyer for your investments when we seek to sell them or to receive the price we expect. Liquidity issues can also make it difficult to value a portfolio's investments.

*Management Risk:* A strategy used by the Portfolio Managers can fail to produce the intended result and potentially cause your portfolio to incur losses.

*Market/Issuer Risk:* The market value of a security moves up and down, sometimes rapidly and unpredictably, based upon overall market and economic conditions, as well as a number of reasons that directly relate to an issuer such as management performance, financial condition and demand for an issuers goods and/or services.

*Mortgage-Related and Asset-Backed Securities Risk:* In the event of a fall in interest rates, securities will likely be prepaid and result in the reinvestment of the prepaid amounts in securities with lower yields than the prepaid obligations. In addition, a prepayment of securities will incur a loss if the original securities were purchased at a premium. Conversely, there is a risk that an unexpected rise in interest rates will extend the life of a mortgage-related or asset-backed security beyond the expected prepayment time, typically reducing the security's value. These securities also include default or collection risk associated with investing in the mortgages underlying the mortgage-backed (or other asset-backed) securities. A portfolio's investment in other asset-backed securities is subject to risks similar to those associated with mortgage-related securities, as well as additional risks associated with the nature of the assets and the servicing of those assets.

*Municipal securities risk:* A portfolio could be significantly impacted by events that affect municipal securities markets, which could include unfavorable legislative or political developments and adverse changes in the financial conditions of municipal securities issuers. Economic downturns often result in reduced levels of taxes collected and revenues earned for municipalities. This, in turn, lessens the financial strength of a municipality and increases the credit risk (including default) of the securities it issues. Income from municipal securities held by a portfolio could be declared taxable because of changes in tax laws or interpretations by taxing authorities, or noncompliant conduct of a municipal security issuer.

## **Cyber Security**

Vaughan Nelson operates in an environment that is subject to operational and information security risks resulting from cyberattacks. Cyberattacks include, among other behaviors, stealing or corrupting data maintained online or digitally, denial of service attacks on websites, the unauthorized release of confidential information or various other forms of cyber security breaches. Cyberattacks affecting the Firm may have adverse impacts such as, causing the release of client non-public information and/or confidential Firm information, impeding trading, suspension of operations, and reputational damage. Although the Firm has established a business continuity plan and the Firm's systems are designed to prevent or reduce the impact of cyber security attacks, such systems are subject to the ever-changing nature of technology and cyber security attack tactics, and there is a possibility that certain risks have not been adequately identified or prepared for.

Similar types of cyber security risks are also present within the companies in which the strategies invest, which could result in material adverse consequences for such companies and may cause an investment in such portfolio companies to lose value.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Vaughan Nelson or the integrity of Vaughan Nelson's management. Since the founding of Vaughan Nelson, there has been no information to disclose that is applicable to this Item 6.

## **Item 10 – Other Financial Industry Activities and Affiliations**

### **General**

Vaughan Nelson is an indirect subsidiary of Natixis Investment Managers SA which owns, in addition to Vaughan Nelson, a number of other asset management, distribution and service entities. Natixis Investment Managers SA, an international asset management group based in Paris, France, is, in turn, principally owned by Natixis S.A., a French investment banking and financial services firm. Natixis S.A. is principally owned by BPCE, France's second largest banking group. BPCE is owned by banks comprising two autonomous and complementary retail banking networks consisting of the Caisses d'Epargne regional savings banks and the Banque Populaire regional cooperative banks. Natixis SA and BPCE each owns, directly or indirectly, other investment advisers and securities and financial services firms established in various jurisdictions which also engage in securities transactions.

Vaughan Nelson, as a policy, does not enter into transactions (e.g. trade execution, participation in underwritings, cross trades) with affiliates on behalf of clients. However, because Vaughan Nelson is affiliated with a number of asset management, distribution and service entities, Vaughan Nelson occasionally engages in Firm level business activities with some of these entities, subject to

Vaughan Nelson's policies and procedures governing conflicts of interest. For example, Vaughan Nelson enters into relationships with affiliates which include advisory or subadvisory arrangements (on a discretionary or non-discretionary basis).

Given that our affiliates provide a number of services and investment products, Vaughan Nelson's clients could independently engage a Vaughan Nelson affiliate to provide any number of services, including advisory, custodial or banking services, or could invest in the investment products provided or sponsored by an affiliate. The relationships described herein could give rise to potential conflicts of interest or otherwise have an adverse effect on clients. For example, when acting in a commercial capacity, affiliates of Vaughan Nelson could take commercial steps in their own interests (e.g. debt restructuring), which could be adverse to those of our clients.

Given the interrelationships among Vaughan Nelson and its affiliates and the changing nature of our affiliates' businesses and affiliations, there could be other or different potential conflicts of interest that arise in the future or that are not covered by this discussion. Additional information regarding potential conflicts of interest arising from Vaughan Nelson's relationships and activities with its affiliates is provided under Item 8 – Code of Ethics.

### **Investment Advisers**

#### **Natixis Advisors, L.P. (Advisors)**

Vaughan Nelson provides sub-advisory services for wrap programs where Advisors is the investment advisor/manager. The Firm is affiliated with Advisors through common ownership. Under the investment sub-advisory agreement with Advisors, Vaughan Nelson provides Advisors "Model Portfolios" containing Vaughan Nelson's current investment recommendations as to the composition of a portfolio that would be purchased for the account of a hypothetical U.S. person to be managed in accordance with one of Vaughan Nelson's investment strategies. Under the arrangement, Advisors has the ultimate decision-making and discretionary responsibility for determining which securities are to be purchased and sold for an underlying wrap account. In almost all cases, Advisors approves the recommendations implicit in the Model Portfolio provided to them. However, there will likely be differences between the Model Portfolios and the portfolios managed by Vaughan Nelson for its other clients resulting from differences in cash availability, investment restrictions, account sizes, taxes and other factors. Likewise, the performance of Vaughan Nelson's discretionary account clients and that of clients in the wrap programs using the same Vaughan Nelson investment strategy will differ for these and other reasons.

Vaughan Nelson also provides trading and execution services for Advisors, at Advisors' direction, in connection with Advisors' management of certain wrap programs for transactions that are a result of a change in the Model Portfolio. In these instances, Vaughan Nelson is then free to select the broker-dealer to effect such transactions.

Advisors will generally execute transactions with each respective wrap program sponsor, or another firm, for transactions being implemented for wrap program clients due to the needs within the individual portfolios.

See Item 9 – Brokerage Practices for a description of trade sequencing involving these accounts.

### Natixis Investment Managers International (“Natixis International”)

Vaughan Nelson provides sub-advisory services to Natixis International, a French company, for a fee, based upon assets under management, where Natixis International serves as the investment manager. The Firm is affiliated with Natixis International through common ownership. These accounts participate in investment decisions and trade allocations on the same basis as Vaughan Nelson’s other client accounts within a particular investment strategy. This serves to mitigate the potential conflict of ‘favoring’ accounts advised by an affiliate.

### **Mutual Funds**

Vaughan Nelson provides sub-advisory services to mutual funds for a fee, based upon assets under management, where Natixis Advisors, L.P. (Advisors) (U.S. domestic funds) or Natixis Investment Managers, S.A. (Luxembourg funds) serve as the investment manager. The Firm is affiliated with the above managers through common ownership. These accounts advised by an affiliate participate in investment decisions and trade allocations on the same basis as Vaughan Nelson’s other client accounts within a particular investment strategy. This serves to mitigate the potential conflict of ‘favoring’ mutual funds sub-advised for affiliates.

### **Collective Investment Vehicles**

Vaughan Nelson has related persons who serve as general partners of limited partnerships, managers of limited liability companies and advisers of private funds. To Vaughan Nelson’s knowledge, none of our clients have been solicited to invest in any of those limited partnerships, limited liability companies or private funds.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

All employees are subject to the restrictions contained within the Vaughan Nelson Code of Ethics (the “Code”). Under the Code, employees are required to comply with applicable securities laws at all times and, more specifically, have the responsibility to ensure that they avoid security transactions and activities for their personal accounts which might conflict with, or be detrimental to, the interests of our clients, or, which are designed to profit, by the market effect, of Vaughan Nelson’s advice to its clients, and, that the employees do not damage their reputation or the reputation of the Firm. All employees must acknowledge the terms of the Code annually, or as amended.

The Code covers an employee’s personal trading, Outside Business Activities and also incorporates, through reference, Vaughan Nelson’s policy and procedures with regard to Gifts & Entertainment, Insider Trading, Political Contributions, and Privacy.

The Firm subscribes to a third party's software/application for employees to process, and compliance to review and monitor, activity relating to Personal Trading, Gifts & Entertainment, Political Contributions and Outside Business Activities.

A copy of Vaughan Nelson's Code of Ethics will be provided to any client or prospective client upon request by contacting the Director of Marketing at 713.224.2545 or mefarrell@vaughannelson.com.

With regard to personal trading, employees of Vaughan Nelson can own the same securities as those held in clients' accounts; however, the client would always receive equal or preferential treatment relative to trades undertaken by employees of the Firm. Portfolio Managers can execute buy or sell orders for clients in the same securities in which their personal accounts, other accounts, or accounts of the Company have an investment/financial interest, or that the Firm has previously recommended to other clients. [Such transactions would not involve the employee's or Company's own securities on a principal basis.]

Under the Code, transactions contemplated by an employee, are subject to preclearance, a black-out period, short-term trading, and reporting requirements designed to mitigate conflicts of interest. Securities having a market cap of less than \$5 billion or whose average trading volume is less than 1 million shares ("small-cap" securities) are subject to preclearance, a 7-day blackout period and an inability to close a position for a profit within 60 days of opening the position. Securities having a market cap greater than \$5 billion and whose average trading volume is greater than 1 million shares ("large-cap" securities) are subject to preclearance, a 1-day blackout period and do not have a time period restriction on closing a position. Employees are prohibited from investing in initial public offerings.

Certain proprietary accounts (i.e. Firm retirement plan) trade in the same securities with client accounts on an aggregated basis when consistent with Vaughan Nelson's obligation of best execution. In such circumstances, the proprietary and client accounts will share commission costs equitably and each will receive a prorata share of the total order, as necessary, at the same average price (see further discussion in Item 9 – Brokerage Services).

Vaughan Nelson manages portfolios on behalf of employees and/or an employee's relatives and the actions taken for these accounts can, at times, differ from, or be identical to, the advice given, or the timing or nature of actions taken, with respect to other client accounts. Procedures are in place to ensure that these accounts are managed according to the regulations of the Securities and Exchange Commission as they apply. Specific oversight is given to these accounts in terms of transactions and performance as compared to other accounts pursuing the same strategy.

#### Related Persons

In connection with providing investment management and advisory services to its clients, Vaughan Nelson acts independently of other affiliated investment advisers and manages the assets of each of its clients in accordance with the investment mandate selected by its clients.

Related persons of Vaughan Nelson are engaged in investment management and undertake securities transactions. Vaughan Nelson's related persons will, at times, invest in the same

securities that Vaughan Nelson recommends, purchases for, or sells from our clients' accounts. Vaughan Nelson and its related persons (to the extent they have independent relationships with a client) could give advice to, and take action in, their own accounts or in other client accounts that would compete, conflict or involve different timing than the advice Vaughan Nelson gives to your particular account.

The trading activities of Natixis firms are not coordinated, however, a situation could exist (unknown to each party) where each individual firm is trading the same security at the same time or on the same or opposite side of each other, potentially affecting the price, amount or other terms of the trade execution which could adversely affect some or all clients. Each client's performance might differ from the results achieved by other current or future clients of Vaughan Nelson. Because certain of Vaughan Nelson's clients are related persons, Vaughan Nelson could have an incentive to resolve conflicts of interest in favor of its related person, however, Vaughan Nelson has established policies and procedures that identify and manage such potential conflicts of interest.

Certain related persons of Vaughan Nelson engage in banking or other financial services, and in the course of conducting such business, such persons might take actions that adversely affect Vaughan Nelson's clients. For example, a related person engaged in commercial lending could foreclose on an issuer or security in which Vaughan Nelson's clients have an interest. Vaughan Nelson does not have the ability to influence the actions of its related persons.

Vaughan Nelson has the ability, none to date, to purchase securities in a public offering or secondary offering on behalf of client accounts in which a related person is a member in the underwriting syndicate. Such participation is in accordance with Natixis IM policy and applicable laws, and Vaughan Nelson does not purchase directly from such related person.

## **Item 12 – Brokerage Practices**

Vaughan Nelson is given complete discretion by its clients to select the brokers to be utilized in the execution of transactions, except in a few instances where the accounts are non-discretionary or 'Directed' to a particular broker.

In executing portfolio transactions and selecting brokers or dealers, it is Vaughan Nelson's policy to seek the best overall execution available. Unless a client 'Directs' brokerage, the Firm determines the broker or brokers through whom, and the commission rate at which, security transactions for client accounts are executed. The selection of a broker is determined by a combination of factors including: (1) price; (2) quality of execution; (3) results of execution in similar security types; (4) market knowledge, activity in making markets and locating liquidity; (5) ability to execute in desired volume; (6) timeliness and responsiveness; (7) dependability, including ability to settle trades; (8) counterparty's credit worthiness and reputation; (9) creativity including use of program and algorithmic trading capabilities; and (10) research, including the presentation of specific investment ideas to the Firm.

Commission levels vary between what is generally paid to brokers from whom we receive investment research in addition to trade execution, and what is generally paid to brokers who only provide trade execution, where commission levels are more generally influenced by the extent of broker involvement (“touch”), geography, and the perceived difficulty of the execution. As a result, Vaughan Nelson will pay a commission higher than what another broker might charge in order to receive additional brokerage related services (e.g. executing a more difficult trade) and/or investment research related services from the chosen broker. Individuals responsible for the selection of brokers (as are all employees) are subject to both a Code of Ethics and a Gifts and Entertainment policy designed to prevent and avoid any potential conflicts of interest in the selection of brokers.

Vaughan Nelson’s determination of the reasonableness of equity brokerage commissions is determined by the Firm’s experience and knowledge of the industry as a whole, as well as the needs, characteristics, geography and difficulty of the trade.

#### Research and Soft Dollar Benefits

Consistent with obtaining best execution, a portion of each client account’s commissions on equity portfolio transactions will be used by Vaughan Nelson to pay a broker for eligible brokerage and research services which the broker provides to Vaughan Nelson to aid in the management of client accounts (a practice known as Soft Dollar Benefits). By using client commissions in this way, Vaughan Nelson receives a benefit as the Firm does not need to produce or pay for certain research, products or services used in the management of client accounts. The research is considered proprietary (created or developed by the broker-dealer) or third-party based (created or developed by others). Accordingly, this practice provides an incentive to select a particular broker based on the Firm’s interest in receiving the broker’s research or other services rather than selecting a broker based upon our clients’ interest in receiving the most favorable execution.

Vaughan Nelson does not attempt to allocate Soft Dollar Benefits received to individual clients, believing instead that the research received is, in the aggregate, of assistance to the Firm in fulfilling its overall duty to all clients. Each and every research service is not used to service each and every account managed by the Firm, and commissions paid by one account may apply towards the payment of research services that are not be used in the service of that account. In addition, clients with ‘Directed’ brokerage do not contribute to the cost of this research (see Trade Sequencing in this Item 9 below).

Research eligible for Soft Dollar Benefits provided by brokers would include proprietary research on individual companies, market trends, economic overviews, industry reports, fundamental security data and market statistics which assist Vaughan Nelson in its investment decision-making process. This research is received by mail, fax, electronically via email or directly over the internet for both direct use and to be loaded into software applications that assist with the investment research and security valuation process.

Some products and services, such as FactSet, are used for both eligible (assisting with the investment decision-making process) and ineligible (administrative or marketing) purposes. These products and services are known as being of “mixed use”. Vaughan Nelson’s compliance department reviews (both initially and at least annually thereafter) the use of “mixed use” products and services to determine the proper allocation between the portions eligible and ineligible for Soft Dollar Benefits. The ineligible portion of “mixed-use” products and services are paid directly by the Firm from its own resources.

Examples of third-party products and services acquired through the use of Soft Dollar Benefits include, but are not limited to:

Bloomberg – provides current financial, economic and political information covering all market sectors. Bloomberg also provides analytics, historical data, up-to-the minute news reports, economic statistics and political commentaries. Bloomberg provides information on market sectors, indices, governments, corporates, mortgages, municipals, currencies, equities, commodities, technical indicators, relative analysis, company news, financial documents, as well as many other items. In addition, Bloomberg enables the Firm’s traders to use a variety of real-time market data, technicals, statistics, news, and related information in the execution of trades. Bloomberg is considered a “mixed-use” product.

FactSet – is a comprehensive source of financial information and analytics for investment managers providing a broad array of financial, market and economic research as well as fundamental data on thousands of companies and securities worldwide enabling the transformation of raw research data into usable information. FactSet provides:

- Company Analysis
- Economic Analysis
- Fixed Income Analysis
- Ability to Store Proprietary Research Information for Integration into FactSet
- Portfolio Attribution Analysis
- Stock Modeling

It is used as a real-time source of security pricing for the market or within portfolios or watch lists as well as a vehicle for security charting, news and trading information. FactSet is considered a “mixed-use” product.

Northfield System – provides a sophisticated, user-friendly tool for the analysis and management of risk and return characteristics associated with active management. The software allows the user to research the nature of a problem, formulate a solution and measure the result. The services provided are:

- Risk Analysis
- Portfolio Construction
- Performance Attribution
- Asset Allocation



Vaughan Nelson has entered into Client Commission Arrangements (CCAs) with various brokers through which the majority of proprietary and third-party research and execution services are paid. CCAs allow commission credits to accumulate at desired/preferred brokers and have those commission credits paid to virtually any proprietary or third-party research provider. Accordingly, this minimizes the need for Vaughan Nelson to trade at a particular broker in order to receive and pay for a broker's research. It allows Vaughan Nelson to place a particular trade where the firm believes best execution can be achieved and mitigates any appearance that Vaughan Nelson might be overly obligated to an individual broker. Transactions at CCAs are undertaken on an 'execution only' basis in addition to soft dollar trades.

#### *Oversight of Soft Dollar Benefits*

Vaughan Nelson monitors the use of Soft Dollar Benefits in the following ways:

- We undertake a formal review of all brokers on an annual basis (issues are also addressed as they arise throughout the year) to evaluate service and executions received. Upon meeting service and execution expectations, a broker is then eligible to be used in connection with Soft Dollar Benefits.
- We annually review the services obtained through soft dollar commissions to ascertain their continued benefit for our clients and investment process (issues are also addressed as they arise throughout the year). We review "mixed use" products for proper allocation.
- We develop an annual Soft Dollar Budget for the upcoming year detailing the proprietary and third-party products and/or services to be received and the target level of commissions required based upon input received from the investment team, trading and compliance. We then review to ensure that the level of commissions required in terms of overall expected commissions for the year will not impede Vaughan Nelson's ability to seek best execution.
- Each month we track and reconcile commissions transacted at the various brokers and Soft Dollar Benefit payments against the Soft Dollar Budget.

#### *Trade Sequencing and Allocation*

In general, investment decisions are made to purchase or sell the same security or securities for a number of client accounts simultaneously (i.e. the accounts are typically pursuing the same investment strategy). In this event, the transactions are added together or "blocked" for trading purposes. However, portfolio transactions for client accounts are also completed independently from other accounts in order to accommodate additions to, or a withdrawal from, a client account or to re-balance a portfolio to bring it in line with the correlated strategy's model.

Vaughan Nelson, in its pursuit of best execution, need not delay trading for certain accounts as it awaits reviews and/or approvals for other accounts or, in the case of certain sub-advised wrap platforms (“limited-direction accounts”), possible ‘shares to be traded’ information for each platform.

Accordingly, portfolios not having Limitations on Trading (see below), requiring review and/or approval, or ‘shares to be traded’ information (e.g. tax-free, tax-deferred, no/limited impactful client restrictions) are blocked together and execution initiated while other portfolios requiring Limitations on Trading to be addressed, a portfolio manager’s review and/or approval or ‘shares to be traded’ information associated with sub-advised wrap platforms are obtained.

As trades for portfolios having limitations, requiring review and/or approval, or ‘shares to be traded’ information are received, they are themselves blocked and either merged into the original block if, in the trader’s judgment, significant execution has not taken place, or executed as its own block after completing the original block.

Individual and block trades are either executed in one day or, if a substantial number of shares is involved compared to daily volume, the transaction will be executed in several transactions over a period of time at varying prices. With regard to block trades, transactions for each blocked security are combined each day by broker, the execution price averaged, and the trades allocated to the relevant client accounts on a pro-rata basis, subject to rounding requirements of up to 100 shares and other de minimus adjustments, resulting in the same average price/proceeds and commissions per share for all trades executed that day.

Notwithstanding the description of aggregation above, the Firm occasionally elects to “auto-execute” an individual trade (or small blocked trade) which constitutes a trade of less than 500 shares of an individual security. In this instance, the trade will be automatically routed through a Direct Market Access system (DMA) and executed at the market price existing at the time the trade was submitted.

#### Limited-Direction Accounts

While Vaughan Nelson has an obligation to seek best execution for all of its clients, those clients that have authorized brokerage discretion to Vaughan Nelson in its selection of executing brokers cannot be disadvantaged by those accounts that have restricted Vaughan Nelson in terms of Vaughan Nelson’s ability to select the executing brokers. The latter would include “limited-direction accounts” (i.e. certain sub-advised wrap platforms) that require an executing broker to step-out the execution of a trade to the sponsoring broker (a “step-out”) with no commission. Vaughan Nelson usually blocks the trading appetite for limited-direction account(s) with accounts that allow for full trade discretion, to the extent possible, within the limits imposed by the executing brokers selected by Vaughan Nelson in its pursuit of best execution. In circumstances where Vaughan Nelson believes the necessary step-out associated with limited-direction accounts within a block trade would impede its ability to obtain best execution for those clients who have authorized full brokerage discretion, Vaughan Nelson will include shares associated with limited-direction

accounts in block trades only to the extent Vaughan Nelson believes execution quality will not suffer. Any remaining shares will be communicated to the wrap platform advisor for execution/completion.

#### Directed, Wrap and Model Delivery Accounts / Platforms

To the extent an investment recommendation is to be implemented within accounts for which Vaughan Nelson has brokerage discretion and accounts for which Vaughan Nelson does not have brokerage discretion (i.e., fully 'Directed' separate accounts, sub-advised wrap platforms only traded at the sponsor, and model-delivery SMA/UMA platforms; all not traded by Vaughan Nelson), the investment recommendation will first be executed for Vaughan Nelson's discretionary and limited-direction accounts, as noted above, and then communicated to the corresponding 'Directed' broker, wrap or model-delivery SMA/UMA platform for execution so as to minimize execution conflict/competition within the marketplace. When a client or platform directs the use of a particular broker-dealer in this way, the firm is not in a position where it can freely negotiate commission rates or spreads, or select broker-dealers on the basis of best price and execution. As a result, these arrangements are executed after blocked trades to avoid execution conflict and can cost clients more money through higher commissions, greater spreads, or a less favorable net price than would be the case if the firm were empowered to select broker/dealers to execute transactions for the client's account. This communication occurs shortly after the completion of trading for blocked, discretionary accounts. Some SMA/UMA model delivery platforms, have arranged to have the model delivered on a periodic basis, up to and including weekly, not tied to the timing/completion of investment decisions. This period delivery approach will result in Vaughan Nelson trading after, concurrently with, or before an SMA/UMA platform. In all cases, this will result in some level of performance dispersion.

#### Limitations on Trading

Limitations on trading occur for a number of reasons including, but not limited to, impactful client guidelines, tax considerations, holding securities less than, or in addition to, the model, or requests to help minimize transaction costs charged to an account by the client's custodian (# of transactions). When trading for a client's account is limited, it will not trade with the 'block' but be traded afterward (if warranted) through either a specific account review or a weekly comparison of weighting differences with the associated model. When this takes place, any identified trades will 1) be executed independently, if the 'block' trade has been completed or, 2) be merged in with the 'block' trade (if not yet complete) for the remainder of the execution.

When a client account is limited in this way, efforts towards best execution will often be limited and some level of performance dispersion will occur.

#### New Client Accounts

Vaughan Nelson will frequently have a need to invest funds related to a new client in order to align the new client's portfolio with the model for a particular strategy while there are outstanding block orders that have not yet been filled/completed for particular securities within the strategy. In this

circumstance, the new client will, on a best efforts basis, be invested to the approximate percentage held within the model prior to the currently outstanding order (if a buy) or up to the approximate current model percentage (if a sell) and trade separately from, or opposite to, any currently outstanding order in order to invest the account on par with other accounts and the model. Remaining shares needed to align the portfolio to the current model percentage will either be merged into the outstanding order, if in the trader's judgment it will not detrimentally impact the remaining execution of the order or, if significant execution has already taken place in the outstanding order, executed as its own block after completing the outstanding order.

#### Contributions to Accounts

Clients will frequently make contributions to their accounts and their accounts will need to be realigned with the model for a particular strategy while there are outstanding block orders that have not yet been filled/completed for particular securities within the strategy. In this circumstance, the additional contribution will, in most instances, be either merged into the outstanding order (for a buy), if in the trader's judgment it will not detrimentally impact the remaining execution of the order or, if significant execution has already taken place, executed as its own block after completing the outstanding order or, (for an outstanding sell) will be traded separately from, and/or opposite to, the currently outstanding order.

#### Terminated Accounts / Withdrawals from Accounts

Vaughan Nelson will also have a need to raise funds relating to account terminations or withdrawals and will need to liquidate or realign the holdings in order to raise the necessary cash while there are outstanding block orders that have not yet been filled/completed for particular securities within the strategy. In this circumstance, the trades necessary to raise the funds will, in most instances, trade separately from, or opposite to, the currently outstanding orders as the currently outstanding orders would not have the same time priority for execution.

**It is believed that this approach to trade sequencing for accounts managed by Vaughan Nelson is equitable, fair and is consistent with the overall concept of best execution.**

#### Commission Recapture

Vaughan Nelson has accounts where the client (or Board of Directors/Trustees for an investment company) has instructed Vaughan Nelson to direct brokerage for the client's account to certain broker-dealers that have agreed to refund or to reduce operating expenses in an attempt to defray expenses for the client's account. The foregoing practices are generally subject to the pursuit of best execution by Vaughan Nelson through the guidelines established by, and overseen by, the client (or Board of Directors/Trustees for an investment company). As Vaughan Nelson blocks most trades in pursuit of best execution, this serves to limit the use of a directed broker to certain situations involving only a contribution or withdrawal in the client's account.

### Trade Errors and Error Correction

Any error identified in trading is investigated to determine whether the error occurred at the brokerage firm or internally at Vaughan Nelson.

In the case of an error by Vaughan Nelson, the error is brought to the attention of the Compliance Officer and/or CEO for resolution. A broker will not assume a loss for which Vaughan Nelson is responsible. Instances where multiple errors have occurred, or have been identified, concurrently or in close succession within an account (e.g. 2-3 days) will be netted to determine the resulting gain or loss. Any net loss to a client greater than \$100 must be reimbursed. Instances of net gain will inure to the benefit of the client. Vaughan Nelson will not be liable for any lost profits (other than for the error(s) itself), consequential or other damages stemming from the error.

### Cross Trades

Vaughan Nelson generally does not undertake cross trade transactions in either fixed income or equities. Cross trades present an inherent conflict of interest as the Firm has an obligation to put each of the participating clients' interest first. However, in certain limited instances, Vaughan Nelson will affect a cross trade between two advisory clients of Vaughan Nelson where a cross trade is deemed to be beneficial, preferred, and in the best interest of both clients involved. Cross trades allow a selling client to raise needed cash, adjust sector, maturity, credit or other weights, or address other needs while simultaneously allowing a buying client to invest cash, and make similar adjustments, all with little or no cost, or negative market price impact.

In general, pricing of cross trades is determined based upon readily available market quotation data. For example, this is typically the 'last sale' of the day for equity securities. For debt securities the Firm requires an average of the highest current independent bid and lowest current independent offer. Vaughan Nelson will obtain at least two independent market quotes, if available, to establish the price for all accounts participating in the cross trade. With respect to investment company clients, Vaughan Nelson would execute a cross trade in accordance with the applicable policies and procedures adopted by the investment company's Board.

Subject to applicable law, a cross trade can be accomplished either with or without the use of a broker (although no commission can be paid). ERISA, proprietary, or adviser affiliated accounts are prohibited from participating in any cross-trade transaction with a client. Cross trades can be difficult to arrange in some circumstances and Vaughan Nelson is under no obligation to effect a cross trade for any client.

### Affiliated Underwritings

Subject to applicable law, Vaughan Nelson could purchase for its clients, securities in an initial or secondary offering underwritten by a related person/entity provided such purchases are from members of the underwriting syndicate other than a related person/entity and comply with attendant regulatory requirements (very rarely undertaken). With respect to investment company clients, Vaughan Nelson would participate in affiliated underwritings in accordance with any

applicable policies and procedures adopted by the investment company's Board in addition to those required by regulation. Similarly, with respect to ERISA clients, such transactions would be affected in accordance with applicable regulations.

### Initial Public Offerings (IPOs)

IPO exposure is not sought on a regular basis for separate account strategies (see Select Fund below). In order to invest any clients in an IPO, the Firm will need to have obtained a "New Issue" questionnaire under FINRA Rule 5130 ("Rule 5130") which has been completed and signed by each client within a strategy. The "New Issue" questionnaire will identify if a client falls within the definition of the term "restricted person" and is, therefore, not eligible to participate in an IPO. Rule 5130 would also require the Firm to obtain updated representations from clients as to each client's "restricted person" status every 12 -18 months in order to receive information related to any changes in the client's status as a "restricted person" since completing the last questionnaire. Accordingly, there would be significant time involved in ascertaining and updating clients' current status. In addition, due to the time involved, any efforts in this regard would need to be completed far in advance of identifying any specific IPO opportunity in which to invest. Since IPO exposure is not sought on a regular basis for most strategies, the Firm does not seek this information from clients in the normal course. The Firm believes that the cost to comply with Rule 5130 for separate accounts outweighs the benefits of participating in IPO investment opportunities on a sporadic basis. Accordingly, clients seeking involvement with IPOs should not expect to obtain such exposure unless they are invested in the Select Fund strategy described below.

Should the Firm decide to invest in IPOs more frequently, other than the Select Fund strategy below, the Firm will undertake the "New Issue" questionnaire process noted above. Once in place, in the event a portfolio manager recommends a particular strategy should invest in an IPO, the recommending individual will document an analysis of the nature, drivers and risk factors associated with the IPO and coordinate an evaluation of the suitability of the IPO for all equity strategies (including the Select Fund).

Once participation is determined, the Firm will establish an overall level of interest in the IPO supported by an allocation for each investment strategy. If the Firm does not receive the number of shares requested in an IPO, the shares actually received will be allocated equitably among participating strategies and client accounts on a prorata basis using the overall level of interest for all accounts provided to the underwriter, subject to adjustments for de minimus allocations, odd lots, FINRA regulatory requirements regarding "new issues" and other factors. This will normally result in an approximate pro rata allocation among those accounts participating in the offering.

Select Fund -- The Firm offers a Select Fund (mutual fund) strategy similar to the long-only Select Strategy except that, among other differences, the Select Fund strategy has the option to seek exposure to IPOs (rarely undertaken). This is possible as registered investment companies (such as the affiliate-sponsored Natixis Select Fund) are exempt from the requirements of Rule 5130. This strategy is differentiated from the other Vaughan Nelson 'long-only' equity strategies as it is designed to have comparatively greater investment flexibility in reaching its investment objectives

through the use of a broader set of instruments including, but not limited to, short sales, convertible securities, options and IPOs. Accordingly, the Firm anticipates that all or substantially all IPO opportunities that are pursued will be allocated to clients in this strategy rather than to other Vaughan Nelson equity strategies which do not otherwise contemplate IPO exposure and which do not have such overall investment flexibility. The use of IPOs in this way could improve performance within the Select Fund strategy thereby benefitting Vaughan Nelson and its employees through 1) the Firm's Deferral plan which has the Select Fund strategy as an investment option, and 2) assist in increasing the Select Fund's assets under management thereby decreasing the expense waiver (if in play) to which Vaughan Nelson is subject.

#### Services Non-Exclusive

Services provided to a client are non-exclusive. The Firm, based on circumstances, will give advice to, and take action in the performance of its duties with respect to a particular client that will differ from the advice given, or the timing or nature of actions taken with respect to other clients. Nothing is deemed to impose upon the Firm any obligation to purchase or sell any security which the Firm purchases or sells for its own account or for the accounts of other clients if it is undesirable or impractical to take such action for a particular client.

#### Security Pricing Procedures

Vaughan Nelson has implemented processes that we believe will allow the Firm to obtain accurate prices for individual securities. For most security types this is accomplished through the use of an outside third-party pricing service (e.g. Intercontinental Exchange). However, there are times when a security will have to be priced using an alternative method ("fair valuation") as the security did not trade in the market for a particular day, or the market for a particular security is thin due to credit or similar issues, or the only available prices for the security are determined through matrices that are, at times, considered a less reliable source. The use of "fair valuation" techniques creates the potential for a conflict of interest, as Vaughan Nelson could benefit to the extent a security is priced too high thereby increasing both the amounts clients are billed and the client's performance record.

Accurate pricing and valuation is important to Vaughan Nelson and the Firm has adopted policies and/or procedures in connection with the fair valuation of securities that are designed to address this conflict. This includes the use of a Pricing Committee and, in the case of corporate bonds, a review of subsequent transaction levels for certain securities as more fully discussed below. This serves to mitigate the conflicts inherent in the fair valuation of securities.

Equity and Equity-like Securities (options, rights, convertible preferreds, etc.) -- In almost all cases, Vaughan Nelson invests in and manages equity and equity-like securities that are traded on exchanges for which 'last sale' prices (or mid prices for options) are readily available through our pricing provider at the end of the day. Accordingly, Vaughan Nelson does not ordinarily rely on a "group" of pricing vendors to assist in determining an equity security's value. Vaughan Nelson

does have procedures in place to review for zero and stale pricing that might suggest a candidate for fair valuation (see Fair Valuation below).

Fixed Income Securities -- All U.S. Treasury, Agency, Mortgage Backed and Municipal securities will normally be priced using the outside third-party pricing service. However, Vaughan Nelson will occasionally have a need to override the third-party price where an error has taken place (e.g. input error 101.00 vs. 110.00) or for liquid Treasury or Agency securities where a difference of +/- \$0.25 exists between the third-party price and the price indicated from other information received or that of the Barclays Index.

Corporate Bonds will be priced by using actual transaction levels (if traded in meaningful quantities) or by independent broker/dealer quotes and/or information. This is accomplished by the fixed income department by any combination of:

- TRACE (Trade Reporting and Compliance Engine; the FINRA developed vehicle that facilitates mandatory reporting of secondary market transactions in eligible fixed income securities) system for any recently executed and posted trades
- "Inventory listings" received in the normal course of business
- Collecting available bid/offer sheets on specific or similar securities from broker contacts
- An independent street broker to match Vaughan Nelson corporate bond holdings with currently active broker bids/offers

Once these transactions, quotes and valuations are collected, the most accurate current price level is determined by the Firm. When no relevant broker/dealer information can be obtained, the third-party outside service price will be used (if reasonable), or a further "Fair Valuation" (see below) will be made.

At the end of each quarter (the frequency client reports are sent), the Pricing Committee at Vaughan Nelson will review the bond pricing and supporting documentation where a +/- 2 point price difference on corporate bonds exists between the internally developed price derived from information and quotes from brokers and that of the third-party pricing service and, a +/- .25 point price difference on Treasury and Agency securities. In addition, the Compliance Department undertakes a review of TRACE transaction activity for all +/- 2 point corporate bonds and any sales of corporate bonds held subsequent to each quarter-end to compare the prices (spreads) obtained in connection with such trades against the prices (spreads) calculated and utilized at quarter-end.

Notwithstanding the above, in certain instances, the third-party price for Corporate Bonds will be used on a regular basis if:

- The security is an inherited position targeted for liquidation
- The security is a small position compared to an overall portfolio and not widely held
- The security has a maturity of less than one year
- The security is being held to maturity
- The security is being held by a Registered Investment Company
- The security does not have a reliable quote from broker pricing sources (see above)



Fair Valuation -- Circumstances requiring a fair value approach, other than that described for corporate bond securities above, typically involve the halt of trading in a particular security or a significant macro event affecting many securities. In the event Vaughan Nelson invests in a security that has not traded on its exchange and/or a significant event were to occur, the firm will value the security in question based upon all of the appropriate factors that are available to the firm. Those involved (e.g. portfolio managers, traders, compliance) would discuss and document the determination of fair value (with outside consultation as necessary) and communicate the fair value to operations for internal pricing purposes and to the various fund administration teams for advised / sub-advised relationships.

### **Item 13 – Review of Accounts**

All accounts are updated nightly with regard to pricing and valuations and are available for review at any time by the portfolio managers familiar with the account. Reviews of accounts are performed by the Portfolio and Client Service Managers based primarily upon various triggering events including, but not limited to, client transactions and inquiries, investment decisions, client presentations, overall market movements, cash levels, and rebalancing needs. Taken as a whole, this amounts to a frequent review of all accounts. The ten (10) Portfolio Administrators and Client Service Managers oversee all client portfolios.

Portfolio appraisals that include a description of each security with its cost and current market value are distributed quarterly in writing along with a summary document describing our strategies employed, the current financial, economic and political environment and performance results for relevant periods. Monthly appraisals, quarterly transaction listings and other portfolio related reports are available to clients upon request.

### **Item 14 – Client Referrals and Other Compensation**

Vaughan Nelson has entered into referral agreements for the solicitation of potential clients. Under the terms of the agreements, the soliciting party will refer prospective institutional clients, consultants and high net worth individuals to Vaughan Nelson and in return receive a percentage (generally decreasing over time) of annual investment advisory fees received from such clients. In all cases, the soliciting party will disclose their relationship with Vaughan Nelson to the prospect or consultant at the time of the referral and, in the case of unaffiliated solicitors, obtain an executed Disclosure Statement to Prospective Clients prior to Vaughan Nelson undertaking the account for management.

Vaughan Nelson has entered into referral agreements with Natixis Advisors, L.P., Natixis Distribution, L.P. and Natixis Investment Managers UK Ltd. (together “Solicitors”) which are related entities. Vaughan Nelson has engaged the Solicitors to contact, either directly or indirectly through representatives of financial intermediaries, institutions and high net worth individuals, including pooled funds, (together “Prospects”) and to recommend that such Prospects entertain proposals for

Vaughan Nelson's advisory services. Vaughan Nelson generally pays Solicitors a percentage of annual investment advisory fees received from such clients over a period of time.

### **Item 15 – Custody**

Clients should receive statements from the broker-dealer, bank or other qualified custodian that holds and maintains the client's investments at least quarterly. As noted in Item 10 – Review of Accounts, Vaughan Nelson will also provide clients with account statements. Vaughan Nelson recommends each client carefully review such statements and compare the official custodial records to the account statements that we provide to you to determine whether account transactions, including deductions to pay our advisory fee, are proper. You should contact us immediately if you do not receive statements from your custodian on a quarterly basis. Our statements often vary from the custodial statements based on accounting procedures (a 'trade date' based statement versus a 'settlement date' based statement), reporting dates, or valuation methodologies of certain securities (i.e. different pricing vendors).

Vaughan Nelson is deemed to have custody of certain client accounts solely as a consequence of the Firm's ability to instruct the custodian for an account to withdraw funds to pay our advisory fee.

### **Item 16 – Investment Discretion**

Normally, Vaughan Nelson is engaged by clients (institutional, individual, mutual fund) to provide advisory services for their account where investment decisions are implemented on a fully-discretionary basis through the execution of a Trading Authorization on the client's account held at the custodian. The Trading Authorization provided on an account is limited by any client guidelines and/or restrictions received by the client in writing (in the case of a mutual fund the associated Prospectus and Statement of Additional Information). These restrictions could include, but are not limited to, such areas as: permissible cash levels, percentage of a portfolio that can be invested in one issuer, minimum required bond ratings, etc. Guidelines and restrictions can be amended in writing throughout the relationship as necessary.

The Trading Authorization and any associated guidelines and/or objectives are discussed, agreed upon and executed in connection with the overall Investment Management Agreement for the account.

Vaughan Nelson's compliance department uses the Charles River Compliance System to enter and automatically monitor client guidelines and restrictions, to the extent possible, on both a pre-trade and post-trade basis. As trades are initiated, they are routed and checked by the compliance system. Any potential breach of a guideline or restriction generates an 'alert' that cannot be overridden without approval from the Firm's compliance team.

## Item 17 – Voting Client Securities

The discretionary authority for Vaughan Nelson to vote proxies is established through either the Investment Management Agreement or, if the agreement is silent, implied by the overall delegation of discretionary authority, or our fiduciary responsibility to ERISA clients under Department of Labor regulations. As a practical matter, Vaughan Nelson does not allow clients delegating voting authority to Vaughan Nelson to also provide instruction as to how to cast votes associated with their account. Notwithstanding, with regard to mutual funds, voting can be controlled by restrictions within the fund or the actions of authorized persons. Alternatively, clients can retain the authority to vote proxies associated with their account through an indication within the original Investment Management Agreement or through the execution of a Proxy Retention Letter (supplied by Vaughan Nelson upon request).

The Firm undertakes to vote all client proxies in a manner reasonably expected to ensure the client's best interest is upheld and in a manner that does not subrogate the client's best interest to that of the Firm's in instances where a material conflict exists. All equity strategies are managed under a common value-oriented investment philosophy and Vaughan Nelson intends to vote proxies in the best interest, and consistent with, the philosophy/strategy overall without consideration of individual client circumstances.

Vaughan Nelson has retained Institutional Shareholder Services ("ISS") to collect proxy ballots for our clients, provide a platform in which to indicate our vote, provide company research as a point of information, and assist our firm in generating proxy voting related reports.

Vaughan Nelson has created a Proxy Voting Guideline ("Guideline") believed to be in the best interest of clients relating to common and recurring issues found within proxy voting material. The Guideline is the work product of the Firm's investment team and it considers the nature of the Firm's business, the types of securities being managed and other sources of information including, but not limited to, research provided by an independent research firm, ISS, internal research, published information on corporate governance and experience. The Guideline helps to ensure voting consistency on issues common amongst issuers and to serve as evidence that a vote was not the product of a conflict of interest, but rather a vote in accordance with a pre-determined policy.

However, in many recurring and common proxy issues a "blanket voting approach" cannot be applied. In these instances, the Guideline indicates that such issues will be addressed on a case-by-case basis in consultation with a portfolio manager to determine how to vote the issue in our client's best interest.

A material conflict of interest may arise in executing our duty to vote proxies for client accounts. We do not envision a large number of situations where a conflict of interest would exist, if any, between Vaughan Nelson and our clients given the nature of our business, client base, relationships and the types of securities managed. However, if a conflict of interest arises Vaughan Nelson will undertake to vote the proxy or proxy issue in our clients continued best interest. This will be accomplished by either casting the vote in accordance with the pre-established Guideline, if the

application of such policy to the issue at hand involves little discretion on our part, or casting the vote as indicated by the independent third-party research firm, ISS. If a conflict involves ISS, Vaughan Nelson will take that into consideration when evaluating a proxy item that is not addressed in the firm's recurring Proxy Voting Guideline.

Vaughan Nelson, as an indirect subsidiary of a Bank Holding Company, is restricted from voting the shares it has invested in banking entities on our client's behalf in instances where the aggregate ownership of all the Bank Holding Company's investment management subsidiaries exceed 5% of the outstanding share class of a bank. Where the aggregate ownership described exceeds the 5% threshold, the firm will instruct ISS, an independent third party, to vote the proxies in line with ISS's recommendation.

Finally, there are circumstances or situations that preclude or limit the manner in which a proxy is voted. These include: 1) Mutual funds – whereby voting is controlled by restrictions within the fund or the actions of authorized persons, 2) International Securities – whereby the perceived benefit of voting an international proxy does not outweigh the anticipated costs of doing so, 3) New Accounts – instances where security holdings assumed will be sold in the near term thereby limiting any benefit to be obtained by a vote on the relevant proposal(s), 4) Small Combined Holdings / Unsupervised Securities – where the Firm does not have a significant holding or basis on which to offer advice, 5) a security is out on loan (voting rights have been passed to the borrower), 6) securities held on record date but not held on meeting date, or 7) investments in banking entities where aggregate ownership of all Natixis Investment Managers' affiliates exceed 5% of the outstanding voting shares of a bank.

In summary, the Firm's goal is to vote proxy material in a manner that we believe assists in maximizing the value of client portfolios.

If you would like to receive a copy of the Guideline, including our proxy voting policies and procedures, or if you would like to obtain information on how your securities were voted, please contact: Chief Compliance Officer, Vaughan Nelson Investment Management, L.P., 600 Travis, Suite 3800, Houston, Texas 77002, 713.224.2545.

### *Class Action Filings*

Processing and filing class actions, while often appearing routine, ultimately involves important legal judgments, including, most fundamentally, the legal question as to whether to participate in the plaintiff class and forego a direct action, or whether to opt out of the class action to pursue a direct action. This may involve considerations relating to other holdings a client may have in the same securities that are not under Vaughan Nelson's management, as well as other factors outside of our relationship which may influence a client's decision (*e.g.* political, business, social or other issues). Due to the legal aspects of the above, Vaughan Nelson does not file class actions on behalf of clients with the exception of certain mutual funds and other accounts where we are contractually obligated to do so.

## **Item 18 – Financial Information**

Disclosure of Vaughan Nelson’s balance sheet is not required as the Firm does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

Vaughan Nelson 1) has no financial condition that is reasonably likely to impair the Firm’s ability to meet contractual and fiduciary commitments to clients, and 2) has not been the subject of a bankruptcy proceeding.