

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

600 Travis, Suite 6300

Houston, Texas 77002

(713)224-2545

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**March 28, 2014**

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 2013.

**Material Changes**

The following changes, which we believe to be material, have been made to the Brochure dated March 28, 2013.

**NONE**

If you would like to obtain a copy of the updated Brochure dated March 28, 2014 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 1 – Advisory Business**

### **Background**

Vaughan Nelson is a Houston-based investment counseling firm established in 1970 and is a wholly-owned affiliate of Natixis Global Asset Management, L.P. (“Natixis”). The Firm, staffed by experienced, research-oriented investment professionals, has a 44-year history of providing comprehensive equity and fixed income investment advice to foundations, endowments, corporations, public entities, mutual funds and high net worth individuals. The Firm’s sole investment focus is providing investment management services for equity and fixed income portfolios totaling ~\$10.3 billion as of 12/31/13.

### **Ownership**

Vaughan Nelson is wholly-owned by Natixis, which, through intermediate subsidiaries, is part of Natixis Global Asset Management 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 28% 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 sub-advisor to both affiliated and unaffiliated mutual funds where investment decisions are implemented on a fully discretionary basis, subject to 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 an affiliate or sponsor (the investment advisor) who then has discretion over the implementation (including trade execution) of the investment advice. It is the responsibility of the affiliate or sponsor of the wrap program 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.

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Performance differences between all Vaughan Nelson’s clients may occur due to differences in cash availability, investment restrictions, account sizes and other factors as noted above.

Discretionary and Non-Discretionary assets (inclusive of those for which a model is provided of \$1,016,000) as of 12/31/13 are broken down as follows:

Discretionary Assets \$9,187,000,000  
Non-Discretionary Assets \$1,067,000,000  
Total Assets \$10,254,000,000

## **Item 2 – 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.

In certain circumstances, client funds may be invested in mutual funds. Affiliated mutual funds 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 exposures. In addition, client funds may 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 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 subadvised by Vaughan Nelson) 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 than those shown in the schedules that follow.

Fees are normally payable in advance for each quarter. Clients may 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 30 days written notice of termination, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

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### **Strategy Managed**

#### *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 (focused all cap)*

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

#### *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 amounts over \$ 25,000,000

#### *Municipal Fixed Income*

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

.25% on amounts over \$ 25,000,000

Vaughan Nelson, in certain circumstances, has entered 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).

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 their compensation/commissions). However, in the case of certain wrap programs, the sponsor's program fee may be inclusive of commissions charged by the sponsor's affiliated broker or another designated broker on trades executed by such broker. In addition, the client may incur custodial and/or consultant fees as stipulated within an agreement entered into by the client and such parties.

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### **Item 3 – Performance-Based Fees and Side-By-Side Management**

Vaughan Nelson, in certain circumstances, has entered into 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"). Certain 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 or its affiliates 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 may 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 in a predetermined manner (see further discussion in Item 9 - Brokerage Practices) concurrently for all client accounts (both performance and non-performance) pursuing the same strategy. This serves to mitigate the ability to 'favor' performance fee accounts.

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

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

### **Item 4 – Types of Clients**

Vaughan Nelson provides portfolio management services to a broad spectrum of clients including individuals, high net worth individuals, wrap platforms, corporations and corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, municipalities, 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.

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## Item 5 – 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 long-only 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.

Strategy Benchmark

Small Cap Value Russell 2000 Value

Value Opportunity (small/mid value) Russell Mid Cap Value

Select (focused all cap > \$1B) Russell 3000

Select Fund (enhanced Select for affiliated mutual fund)\* S&P 500

\*This strategy is managed in a fashion similar to the Select strategy in terms of long equities.

However, the strategy also 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.

We employ 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 may 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.

Our approach and methodology seek to obtain a 50% return over a three year holding period from every position in the portfolio. The Firm couples this return objective with robust idea generation. In seeking investment ideas for the portfolio, Vaughan Nelson focuses on three distinct investment categories, each of which provides a different avenue by which our 50% targeted return might be generated. There can be no assurance the return objective will be realized with respect to any or all investments. Further, the return achieved may 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:

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- Companies earning a positive return on capital (returns in excess of the company's cost of capital), with stable to improving returns (Category A)
- Companies valued at a discount to a specific asset value (Category B)
- Companies with an attractive dividend yield and minimal basis risk (Category C)

Due to our ability to allocate the portfolio across the A, B and C categories, the approach provides an "all weather" aspect to the portfolio enabling us to potentially add returns in excess of the benchmark in different market environments. Thus, the process allows Vaughan Nelson to try and take advantage of the market rather than be subject to any one market trade.

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 may 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.

*Foreign Securities Risk (ADRs and foreign or emerging market companies trading on a U.S. Exchange):* The strategy's investments in foreign securities are subject to foreign currency fluctuations and potentially greater political, economic, credit, regulation and information risks. Foreign securities may be subject to higher volatility than U.S. securities.

*Liquidity Risk:* We may be unable to find a buyer for your investments when we seek to sell them or to receive the price we expect. Liquidity issues may also make it difficult to value a portfolio's investments.

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

*Market Risk:* The market value of a security may move up and down, sometimes rapidly and unpredictably, based upon a change in an issuer's financial condition, as well as overall market and economic conditions.

*Non-Diversified Strategy (i.e. Select):* 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, may be more volatile or risky than less concentrated investments.

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*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 may 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-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 may fluctuate more than stocks of larger companies. Stocks of small-cap companies may, 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 may 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 may give rise to leverage risk and can have a significant impact on the exposure to securities markets values, interest rates or currency exchange rates. It is possible that the available liquid assets may be insufficient to support obligations under derivatives positions. The use of derivatives for other than hedging purposes may be

considered a speculative activity, and involves greater risks than are involved in hedging. The use of derivatives may 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 may involve 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 may lead to significant losses if investments are not successful.

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

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#### 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 possibly 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 may 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. 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, uncovers relative values that over the long-term produce returns with less risk.

Our universe of fixed income investment options 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.

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, as well as the duration of the yield curve positioning, 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
  - 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 many brokers
- Strong trading relationships
- Electronic trading conducted only for Treasuries

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All of our fixed income investment strategies invest in securities rated investment grade at the time of purchase. We do not manage high yield/junk or derivative assets. We do not invest in areas where we deem the risk to be too great for our clients' capital (e.g. exposure in '08-'09 market to higher volatility 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 is 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 ladder 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 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 shortterm

yield curve changes that may not be 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.

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*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 may be added for an average quality rating guideline of AA or better)

Municipal: Seeks to provide high 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 may 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 may 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 may 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 may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of a portfolio.

*Interest Rate Risk:* The value of investments may 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.

*Issuer Risk:* The value of securities may 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 may be unable to find a buyer for your investments when we seek to sell them or to receive the price we expect. Liquidity issues may also make it difficult to value a portfolio's investments.

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

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*Market Risk:* The market value of a security may move up and down, sometimes rapidly and unpredictably, based upon a change in an issuer's financial condition, as well as overall market and economic conditions

*Mortgage-Related and Asset-Backed Securities Risk:* In the event of a fall in interest rates, securities may 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 may 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 may include default or collection risk associated with investing in the mortgages underlying the mortgage-backed (or other assetbacked) 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 may 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 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. A portion of a portfolio's otherwise tax-exempt dividends may be taxable to those subject to the AMT.

#### **Item 6 – 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 7 – Other Financial Industry Activities and Affiliations**

##### **General**

Vaughan Nelson is a direct subsidiary of Natixis which owns, in addition to Vaughan Nelson, a number of other asset management, distribution and service entities. Natixis is part of Natixis Global Asset Management (France), an international asset management group based in Paris, France, that is, in turn, principally owned by Natixis S.A., an 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

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cooperative banks. Natixis and BPCE each owns, directly or indirectly, other investment advisers and financial service firms established in various jurisdictions.

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 may occasionally engage in business activities with some of these entities, subject to Vaughan Nelson's policies and procedures governing conflicts of interest. For example, Vaughan Nelson may enter 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 may independently engage a Vaughan Nelson affiliate to provide any number of services, including advisory, custodial or banking services, or may 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 may have an adverse effect on clients. For example, when acting in a commercial capacity, affiliates of Vaughan Nelson may take commercial steps in their own interests, which may 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 may 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**

NGAM Advisors, L.P. (Advisors)

Vaughan Nelson provides sub-advisory services for wrap programs where Advisors is the investment advisor/manager. 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 may 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 may also provide trading and execution services for Advisors, at Advisors' direction, in connection with Advisors' management of the various wrap programs for

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transactions that are a result of a change in the Model Portfolio and where Vaughan Nelson is then free to select the broker-dealer to effect such transactions. Advisors, on the other hand, will generally execute transactions with each respective wrap program sponsor, or another firm, for transactions being implemented for wrap program clients as a result of needs within their individual portfolios. See Item 9 – Brokerage Practices for a description of trade sequencing involving these accounts.

#### **Natixis Asset Management**

Vaughan Nelson provides sub-advisory services to Natixis Asset Management, a French company, for a fee, based upon assets under management, where Natixis Asset Management serves as the investment manager. The Firm is affiliated with Natixis Asset Management through common ownership. These related accounts participate in investment decisions and trade allocations on the same basis as Vaughan Nelson's other client accounts within a particular investment strategy.

#### **Vaughan Nelson Trust Company**

Vaughan Nelson has a wholly-owned subsidiary, Vaughan Nelson Trust Company ("VNTC") which began to wind down its operations in June of 2013. Clients of VNTC have since been transitioned over to Vaughan Nelson under new investment management agreements. VNTC has withdrawn its registration with the SEC as an investment advisor as of March 26, 2014. VNTC had offered trust and management services for institutional and individual accounts. Vaughan Nelson provided investment advisory services to clients of VNTC as well as office space and office services.

#### **Mutual Funds**

Vaughan Nelson provides sub-advisory services to mutual funds for a fee, based upon assets under management, where NGAM Advisors, L.P. (Advisors) (U.S. domestic funds) or NGAM, S.A. (non-U.S. funds) serve as the investment manager. The Firm is affiliated with the above managers through common ownership. These related accounts participate in investment decisions and trade allocations on the same basis as Vaughan Nelson's other client accounts within a particular investment strategy.

#### **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.

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### **Item 8 – 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 and also incorporates, through reference, Vaughan

Nelson's policy and procedures with regard to Gifts & Entertainment, Insider Trading, Political Contributions and Privacy.

A copy of Vaughan Nelson's Code of Ethics will be provided to any client or prospective client upon request by contacting Mark Farrell, Director of Marketing at (713)224-2545 or [mefarrell@vaughannelson.com](mailto:mefarrell@vaughannelson.com).

With regard to personal trading, employees of Vaughan Nelson may 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 may execute buy or sell orders for clients in the same securities in which their personal accounts, other accounts, or accounts of the Company and its subsidiaries may 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 and/or affiliated accounts may 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, affiliated 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.

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Vaughan Nelson may manage portfolios on behalf of an employee and the actions taken for these accounts may differ from, or be identical to, the advice given, or the timing or nature of actions taken, with respect to other client accounts. Procedures in place are designed to ensure that employee accounts are managed according to the regulations of the Securities and Exchange Commission as they may apply.

#### 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 may 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) may give advice to, and take action in, their own accounts or in other client accounts that may compete, conflict or involve different timing than the advice Vaughan Nelson may give to your particular account.

Since the trading activities of Natixis firms are not coordinated, each firm may trade the same security at the same time or on the same or opposite side of the market, potentially affecting the price, amount or other terms of the trade execution which may adversely affect some or all clients. Accordingly, each client's performance may 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 may 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 may engage in banking or other financial services, and in the course of conducting such business, such persons may take actions that adversely affect Vaughan Nelson's clients. For example, a related person engaged in commercial lending may 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.

### **Item 9 – 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 ("directed").

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

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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 (generally up to three (3) cents per share; see Research and Soft Dollar Benefits below) and what is generally paid to brokers who provide only trade execution (generally one-half (.5) to two (2) cents per share) depending on the extent of broker involvement ("touch") and the perceived difficulty of the execution. As a result, Vaughan Nelson will pay a commission higher than what another broker may 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 and difficulty of the trade.

#### *Research and Soft Dollar Benefits*

Consistent with obtaining best execution, a client account's commissions on portfolio transactions (or a portion thereof) may 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 may be proprietary (created or developed by the broker-dealer) or third-party based (created or developed by others). Accordingly, this practice may provide 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 may not be 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 may 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).

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Research eligible for Soft Dollar Benefits provided by brokers would include reports 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 products and services acquired through the use of Soft Dollar Benefits include, but are not limited to:

Bloomberg Data – 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. 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

In addition, FactSet 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

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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

Reuters Systems – uses the concept of a multi-function terminal, currently enabling the Firm’s traders to use a variety of real-time market data, technicals, statistics, news, and

related information in the execution of 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 may arise throughout the year) to evaluate service and executions received. Once meeting service and execution expectations, a broker is then eligible to be used in connection with Soft Dollar Benefits.
- We annually review the continued benefit of soft dollar services to our clients and investment process. 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 or services to be received and the target level of commissions required based upon input received from the equity 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. In this event, the transactions may be added together or “blocked” for trading purposes. However, portfolio transactions for client accounts may also be 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 sub-advised wrap platforms (“limited-direction accounts”), possible share requirement information. Accordingly, portfolios not

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requiring review, approval or share requirement information (e.g. tax-free accounts, tax-deferred accounts, and accounts with no client restrictions) are blocked together and execution may be initiated while other portfolios requiring a portfolio manager’s review and/or approval or share requirement information associated with sub-advised wrap platforms are obtained.

As portfolios requiring review and/or approval or share requirement 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. For one major broker’s Unified Managed Account (UMA) platform, Vaughan Nelson will communicate trade(s) at the beginning of each trading day through an electronic portal in order for the UMA platform to execute the trade(s) itself. This approach may result in Vaughan Nelson trading after, concurrently with, or before the UMA platform.

Notwithstanding the description of aggregation above, the Firm may elect 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.

While Vaughan Nelson has an obligation to seek best execution for all of its clients, Vaughan Nelson believes it has a duty to ensure that those clients that have authorized brokerage discretion to Vaughan Nelson as to its selection of executing brokers are not disadvantaged by those accounts that

have restricted Vaughan Nelson in terms of its ability to select executing brokers. The latter would



include “limited-direction accounts” (i.e. sub-advised wrap platforms) that require a broker step-out the trade to another broker or “fully-directed accounts” where only a specific broker may be utilized.

Vaughan Nelson will block trades for limited-direction accounts 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 only shares associated with limited-direction accounts in block trades 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. Individual and block trades may be executed in one day or, if a substantial amount of shares is involved, the transaction may 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 minimis adjustments, resulting in the same average price/proceeds and commissions per share for all trades executed that day.

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#### Directed Brokerage

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 accounts and limited-direction accounts not to be traded by Vaughan Nelson), the investment recommendation will first be executed for Vaughan Nelson’s discretionary accounts, as noted above, and then communicated to the corresponding directed broker for execution so as to avoid execution conflict/competition within the marketplace. When a client directs the use of a particular broker-dealer in this way, the Firm may not be 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, fully-directed brokerage transactions are executed after blocked trades to avoid execution conflict and may 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.

#### 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 entire portfolio with the model for a particular strategy while there are outstanding block orders for other client accounts that have not yet been filled/completed for particular securities within the strategy. In this circumstance, the new client will be invested to the desired percentage within the model and trade separately from (if a buy), or opposite to (if a sell), any currently outstanding order in order to invest the account on par with the model.

#### 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 for other client accounts that have not yet been filled/completed for particular securities within the strategy. In this circumstance, the additional contribution will be either merged into the outstanding orders (for a buy), if in the trader’s judgment it will not detrimentally impact the remaining execution of the order or, traded separately from, and/or opposite to (if a sell), 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, as the case may be, in order to raise the necessary cash while there may be outstanding block orders for other client accounts that have not yet been filled/completed for particular securities within the strategy. In this circumstance, the trades necessary to raise the funds will trade separately from, or opposite to, the currently outstanding orders as the currently outstanding orders would not have the same time priority for execution.

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#### *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) which serves to limit the use of a directed broker to certain situations involving 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 may 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 must be reimbursed. Instances of net gain will inure to the benefit of the client.

#### *Cross Trades*

Vaughan Nelson generally does not undertake cross trade transactions in either fixed income or equities. However, in certain limited instances, Vaughan Nelson may effect a cross trade between two advisory clients of Vaughan Nelson where a cross trade may be deemed to be beneficial, preferred, and in the best interest of both clients involved. Cross trades may 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, when determining the current market price for debt securities that require 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 may 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 may be accomplished either with or without the use of a broker (although no commission may be paid). ERISA, proprietary, or adviser affiliated accounts are prohibited from participating in any cross trade transaction with a client. Cross trades may be

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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 may 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. With respect to investment company clients, Vaughan Nelson would participate in affiliated underwritings in accordance with regulations and 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 effected in accordance with applicable regulations.

#### *Initial Public Offerings (IPOs)*

Vaughan Nelson does not seek exposure to equity IPOs for clients invested in most strategies. 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 costs to comply with Rule 5130 with respect to most of its strategies will, in most cases, outweigh the benefits of participating in IPO investment opportunities on a sporadic basis. Accordingly, clients seeking ongoing exposure to IPOs should not expect to obtain such exposure unless they are invested in the strategy described below.

Should the Firm decide to invest in IPOs for strategies, 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

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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 will seek exposure to IPOs on a more regular basis. Clients invested in this strategy (through the affiliate sponsored mutual 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 will be allocated to clients in this strategy rather than to other Vaughan Nelson equity strategies which do not otherwise contemplate regular IPO exposure and which do not have such overall investment flexibility.

#### *Services Non-Exclusive*

Services provided to a client are non-exclusive. The Firm may give advice to and take action in the performance of its duties with respect to any particular client that may 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 may purchase or sell 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 the most accurate price available for individual securities. For most security types this is accomplished through the use of an outside third-party pricing service (e.g. Interactive Data Corp). However, there are times when a security will have to be priced using an alternative method ("fair valuation") as the security may not have traded in the market for a particular day, or the market for a particular security may be 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 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.

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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 US exchanges for which prices 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 value pricing 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 may 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 and/or independent broker/dealer quotes 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. 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 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 difference on Treasury and Agency securities. In addition, the Compliance Department undertakes a review of TRACE transaction activity for all +/- 2 point corporate bonds 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.

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 the U.S. market 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 for internal pricing purposes and to the various fund administration teams for sub-advised relationships.

#### **Item 10 – 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 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 typically 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 11 – 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 NGAM Advisors, L.P., NGAM Distribution, L.P., NGAM UK Ltd. and Reich & Tang Asset Management, LLC (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.

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#### **Item 12 – 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 may 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).

### **Item 13 – 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 may 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 14 – Voting Client Securities**

The discretionary authority for Vaughan Nelson to vote proxies is established through either the investment advisory 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

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their account. Notwithstanding, with regard to mutual funds, voting may be controlled by restrictions within the fund or the actions of authorized persons. Alternatively, clients may retain the authority to vote proxies associated with their account through an indication within the original advisory agreement or through the execution of a Proxy Retention Letter (supplied by Vaughan Nelson).

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.

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 (Institutional Shareholder Services), 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, Institutional Shareholder Services. Finally, there may be circumstances or situations that may preclude or limit the manner in which a proxy is voted. These may include: 1) Mutual funds – whereby voting may be 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, or 5) a security is out on loan (voting rights have been passed to the borrower).

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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 6300, Houston, Texas 77002, 713/224-2545.

#### **Item 15 – 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 has no financial condition that is reasonably likely to impair the Firm’s ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

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## **Regulation S-P Privacy (S-P) / S-AM Affiliate Marketing**

### ***Background***

Congress enacted the Gramm-Leach-Bliley Act in November 1999. The Act directed federal regulators, including the Securities and Exchange Commission, to adopt regulations requiring entities under their jurisdiction to maintain confidentiality and to protect the security of their Consumer’s and Customer’s Non-Public Personal Information. As defined below, the regulation applies to Non-Public Personal Information of individuals obtaining services for personal purposes. The regulation does not apply to Non-Public Personal Information of businesses, partnerships and other entities.

Regulation S-P requires financial institutions to:



1. Develop privacy policies and procedures
2. Send initial and annual disclosures of privacy policies to Customers
3. Permit Consumers and Customers to “opt out” of disclosure of their Non-Public Personal Information to Nonaffiliated third parties.
4. Provide reasonable protection of the Consumer and Customer information we retain.
5. Take reasonable measures to protect against unauthorized access to, or the use of, Consumer Report information in connection with its disposal.

The SEC implemented Regulation S-AM with a mandatory effective date of January 1, 2010. S-AM imposes limitations on an entities use of certain information **received from an affiliate** to solicit a Consumer for marketing purposes.

Similar to S-P, S-AM requires financial institutions to:

1. Provide a Consumer with notice and a reasonable opportunity to opt out before a receiving affiliate can use Eligibility Information to make a marketing solicitation to the Consumer
2. Permit Consumers and Customers to “opt out” of disclosures of their Eligibility Information to affiliates

### ***Definitions***

The following are important definitions:

Affiliate – any company that controls, is controlled by, or is under common control with Vaughan Nelson.

### **Regulation S-P Privacy (S-P)**

#### **Regulation S-AM Limitations on Affiliate Marketing (S-AM) (cont’d.)**

Consumer – an **individual** who obtains or has obtained a financial product or service from Vaughan Nelson that is to be used primarily for personal, family or household purposes.

NOTE: 1) an individual **is** a Consumer if Personal Information has been provided to Vaughan Nelson whether or not we provide services to the individual or establish a continuing relationship

2) an individual associated with an IRA account **is** considered a Consumer

3) an individual **is not** a Consumer if they provide only a name, address and area of interest in connection with a request for information.

4) a trust **is not** deemed to be an **individual** and thereby not a Consumer.

5) an individual **is not** a Consumer solely because they have designated Vaughan Nelson Trust Company as trustee for a trust or because they are a beneficiary of a trust for which Vaughan Nelson Trust Company is the trustee.

Consumer Report – any written, oral, or other communication of any information *by a consumer reporting agency* bearing on a Consumer’s credit worthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living which is used or expected to be used or collected in whole or in part by the firm.

Customer – a Consumer who has a continuing relationship with Vaughan Nelson.

Eligibility Information – any information the communication of which would be a Consumer Report, without consideration to the exclusion provided in the Fair Credit Reporting Act.

Nonaffiliated Third Party – any person or entity except for an Affiliate and, any person employed jointly by you and a company that is not an affiliate.

Non-Public Personal Information (“Personal Information”) – Personally Identifiable Financial Information and any list, description or other grouping of Consumers that is derived from Personal Information that is not known to be publicly available information.

Personally Identifiable Financial Information – any information a Consumer/Customer provides Vaughan Nelson to obtain services, any information about a Consumer/Customer derived from transactions or any other information Vaughan Nelson obtains about a Consumer/Customer in connection with providing Vaughan Nelson’s services to the

Consumer/Customer. (Examples: applications, new account forms, account balances, the fact they are a client, etc.)

## **Regulation S-P Privacy (S-P)**

### **Regulation S-AM Limitations on Affiliate Marketing (S-AM) (cont'd.)**

#### **Vaughan Nelson Policy**

##### **General Policy**

**S-P** -- Vaughan Nelson does not provide, share or otherwise distribute Personal Information to Nonaffiliated Third Parties outside of permitted exceptions. Prior to disseminating Personal Information to Nonaffiliated Third Parties, except under one of the permissible exceptions authorized below, Vaughan Nelson would have to provide an opportunity to all Consumers/Customers to “opt-out” of providing their individual information to such Nonaffiliated Third Parties.

**S-AM** -- Vaughan Nelson does not undertake marketing solicitations based upon Eligibility Information received from Vaughan Nelson’s affiliates.

Situations where Vaughan Nelson, or an employee of Vaughan Nelson,

1) desires to distribute Personal Information to a Nonaffiliate that does not come under the permissible exceptions outlined below,

2) desires to undertake marketing solicitations based upon Eligibility Information received from an affiliate

**must be discussed well in advance with the Compliance Officer.**

##### **Transaction Processing and Servicing Exception**

Vaughan Nelson, under a permitted exception, may provide, share or otherwise distribute Personal Information to Nonaffiliated Third Parties as necessary to effect, administer, or enforce a transaction that a Consumer/Customer has requested or authorized. Use of Personal Information in this manner is an exception to the “opt-out” requirement of Regulation S-P. This exception allows the day to day activity of investing client or fund assets to be accomplished without interruption or concern as to whether the Consumer/Customer has “opted-out” or whether a required contractual clause is in place. This exception would normally allow information, as necessary to permit the ability to carry out their duties and functions, to be forwarded to, among others:

- Brokers
- Custodians
- Depository Trust Corp (DTC)
- Advent/Advent Custodial Data (ACD)
- Alert System
- Authorized CPAs, Attorneys and Consultants

Vaughan Nelson Investment Management

## **Regulation S-P Privacy (S-P)**

### **Regulation S-AM Limitations on Affiliate Marketing (S-AM) (cont'd.)**

##### **Service Provider and Joint Marketing Exception**

Vaughan Nelson, under a permitted exception, may also provide, share or otherwise distribute Personal Information to a Nonaffiliated Third Party in order for them to perform joint marketing or other services or functions on Vaughan Nelson’s behalf. Use of Personal Information in this manner is an exception to the “opt-out” requirement of Regulation S-P. This exception allows the flow of information between Vaughan Nelson and service providers or joint marketers in order to perform functions on Vaughan Nelson’s behalf. For Vaughan Nelson to rely on this exception, there must be a contractual agreement for the services performed that includes a prohibition on the third party to use or disclose the

information provided by Vaughan Nelson other than to carry out the purposes for which Vaughan Nelson disclosed the information. For instance, this exception applies to Vaughan Nelson's arrangements with:

- FactSet (portfolio analytics and attribution)
- Third party solicitors
- Institutional Shareholder Services (third party proxy research and administration)

#### Miscellaneous Exception

Vaughan Nelson, under the exceptions described below, may provide, share or otherwise distribute Personal Information to Non-Affiliated Parties:

- With the consent or at the direction of the Customer (not revoked)
- To protect the confidentiality or security of Vaughan Nelson's records relating to a Customer, service, product or transaction
- To protect against actual or potential fraud, unauthorized transactions, claims or other liability
- For required institutional risk control or for resolving customer disputes or inquiries
- To persons holding a legal or beneficial interest relating to a Customer
- To persons acting in a fiduciary or representative capacity for a Customer
- To the extent specifically permitted by other laws, to law enforcement agencies, insurance authorities, self-regulatory organizations, or for an investigation on a matter related to public safety
- To a consumer reporting agency
- In connection with proposed or actual sales, mergers or similar transactions relating to Vaughan Nelson
- To comply with applicable federal, state or local laws or other legal requirements, pursuant to judicial process subpoena or summons or to governmental authorities having jurisdiction over Vaughan Nelson

### **Regulation S-P Privacy (S-P)**

#### **Regulation S-AM Limitations on Affiliate Marketing (S-AM) (cont'd.)**

##### Affiliates

Vaughan Nelson may provide, share or otherwise distribute Personal Information to Affiliates. However, the Affiliate is subject to the same disclosure requirements as Vaughan Nelson and cannot use the information to solicit Consumers unless the Consumers have been given the opportunity to opt out.

Vaughan Nelson may receive Eligibility Information from an affiliate but cannot use such information for targeting marketing solicitations unless Consumers have been given the opportunity to opt out.

##### Safeguards and Protection

Vaughan Nelson obtains and collects Personal Information from Consumers and Customers in its normal course of business. It is the policy of Vaughan Nelson to provide reasonable safeguards and protection of this information in order to protect the confidentiality and identity of Vaughan Nelson's Consumers/Customers.

The types of Personal Information received from Consumers/Customers is far-reaching and includes such items as name, address, phone/fax number, email address, SSN, account numbers, custodian account numbers, account balance information, transaction details, individual performance, birthday, children and the fact the Consumer/Customer is a customer of Vaughan Nelson. Essentially, all information attributable to a Consumer/Customer should be considered Personal Information unless we have verified it is public or not otherwise subject to these requirements.

*Vaughan Nelson does not currently obtain Consumer Report information (Eligibility Information) on clients or prospects from any source, affiliated or not.*

Vaughan Nelson has in place reasonable safeguards to protect the confidentiality of Personal Information and its use and distribution. The safeguards include limited, coded access to Vaughan Nelson's premises, after-hour alarm system monitored by third-party provider, password protection for all computers, use of a firewall with Transport Socket Layer (TSL) / Secure Socket Layer (SSL) encryption protocols (if receipt thereof is allowed by the receiving party) for communication outside of Vaughan Nelson, document shredders and repositories for use in discarding confidential information and Consumer Report information. Personal Information Received from Nonaffiliated Third Parties

Vaughan Nelson is limited in its use of Non-Public Personal Information received from Nonaffiliated Third Parties.

If the information is received under the Transaction Processing and Servicing Exception above then Vaughan Nelson may further disclose the information to affiliates of the Nonaffiliated Third Party, to Vaughan Nelson's affiliates (subject to the same disclosure requirements as Vaughan Nelson) or, to Nonaffiliated Third Parties under the Transaction Processing and Servicing Exception.

### **Regulation S-P Privacy (S-P)**

#### **Regulation S-AM Limitations on Affiliate Marketing (S-AM) (cont'd.)**

If the information is received outside of a permitted exception then Vaughan Nelson may further disclose the information to affiliates of the Nonaffiliated Third Party, to Vaughan Nelson's affiliates (subject to the same disclosure requirements as Vaughan Nelson) or, to any other person if the Nonaffiliated Third Party could have made that same disclosure.

#### **Unauthorized Access to Customer Information**

In the event of a breach or incident where unauthorized access to Personal Information maintained by the Firm or any of the Firm's service providers has occurred the following steps will be undertaken.

1. Determine if any Sensitive Client information has been accessed. This would include customer's name, social security number, driver's license number or any passwords that would permit access to the customer's account. Any information that may give someone the ability to log on to or access the customer's account. **If yes;**
2. Immediately notify Richard Faig, Chris Wallis, Nathan Sloan, and Jay Wagner to determine what action needs to be done to prevent further unauthorized access.
3. Richard Faig, CCO, as manager of compliance, will notify the local police at 713-884-3131 if this relates to criminal activity. He will determine whether the incident warrants the filing of a SAR.
4. The Risk Management Committee will determine if a Customer Notice should be provided. Notice will be provided if it is determined that misuse of the information has occurred or it is reasonably possible that misuse will occur.
5. A Customer notice will include a description of the incident, type of information subject to the unauthorized access, measures taken by the firm to protect customers from further unauthorized access, telephone number clients can call for information and assistance, a reminder to customers to remain vigilant over the next 12 to 24 months and to please report any suspected identity thefts to Vaughan Nelson.
6. If this incident affected a large number of clients, the reporting agencies would be notified prior to sending the customer notices.
7. The customer notification will be in the form of a telephone call first and if the customer is not reached, then an email will be sent if we have an address for the customer and they have agreed to receive email communication. If neither of these options work, they will be notified by mail.

#### **Other Procedures**

1. The Compliance Department will, from time to time, review and document:

- Types of Personally Identifiable Financial Information collected or generated
- Sources used to collect Personally Identifiable Financial Information

### **Regulation S-P Privacy (S-P)**

#### **Regulation S-AM Limitations on Affiliate Marketing (S-AM) (cont'd.)**

- To whom Vaughan Nelson provides, shares, or otherwise distributes Personal Information and whether they are Affiliated or Nonaffiliated
  - Whether the firm receives Eligibility Information from affiliates to be used for marketing purposes
  - Manner in which the firm disposes of Consumer Report information, as applicable
2. Vaughan Nelson will send a clear and conspicuous initial and annual (once every 12 month period) disclosure of Vaughan Nelson's Privacy Policy (usually in connection with the 1Q letter that is sent in the beginning of April each year). The disclosure should be reviewed each year and is to include, **as applicable and appropriate**:
- Categories of Personal Information that Vaughan Nelson collects
  - Categories of Personal Information that Vaughan Nelson discloses
  - Categories of Affiliates and Nonaffiliated Third Parties to whom Vaughan Nelson makes disclosure other than those under the Transaction Processing and Servicing Exception or Miscellaneous Exception
  - Regarding former Customers, categories of Personal Information that Vaughan Nelson discloses and categories of Affiliated and Nonaffiliated Third Parties to whom Vaughan Nelson makes disclosure other than those under the Transaction Processing and Servicing Exception or Miscellaneous Exception
  - Categories of Nonaffiliated Third Parties with whom Vaughan Nelson has contracted under the Service Provider and Joint Marketing exception and the categories of Personal Information that Vaughan Nelson discloses thereunder
  - Explanation of a Consumer's right to "opt-out" of disclosures made by Vaughan Nelson to Nonaffiliated Third Parties outside of a permitted exception
  - Any disclosure Vaughan Nelson makes under the Fair Credit Reporting Act
  - Vaughan Nelson's policies and practices in protecting the confidentiality and security of Personal Information and the disposal of Consumer Report Information
  - When describing categories with respect to Nonaffiliated Third Parties receiving information under the Transaction Processing and Servicing Exception or Miscellaneous Exception a statement "that Vaughan Nelson makes disclosures to other Nonaffiliated Third Parties as permitted by law"
3. If Vaughan Nelson will utilize Eligibility Information from affiliates for marketing solicitations the firm (in conjunction with the affiliate who currently has a relationship) will send a clear and conspicuous notice of Vaughan Nelson's intent to do so with an option to 'opt-out' of such use.
4. Prepare documentation evidencing the distribution of the initial and annual privacy notices and marketing notices, to the extent undertaken, to Vaughan Nelson's Customers.
5. Vaughan Nelson shall from time to time document, assess and update the safeguards and procedures in place with regard to Customer records and information as well as the response program for unauthorized access.
6. Ensure a copy of Vaughan Nelson's Privacy Policy is provided to all personal prospects prior to the execution of the advisory contract.

**Regulation S-P Privacy (S-P)**

**Regulation S-AM Limitations on Affiliate Marketing (S-AM) (cont'd.)**

7. Send out a revised Privacy Policy as needed for changes in (outside of the permitted exceptions) 1) the categories of information disclosed or 2) the categories of Nonaffiliated Third Parties receiving information.