Westwood®

Westwood **Alternative Income** Fund (WMNIX)

Commentary

2Q
2024

Performance Highlights

- Returns for the S&P 500 were strong in the second quarter, but beyond the headlines there were many struggles in the broader equity market. Bond prices were largely flat in the quarter, though high yield emerged as a winner. In this environment, the Westwood Alternative Income strategy returned 0.75%, trailing the FTSE one-month Treasury Bill Index, which returned 1.35%. The primary benchmark, the Bloomberg U.S. Aggregate Index, returned 0.07% for the period.
- The S&P 500 surged to new highs in the second quarter, but the gains were concentrated among mega-cap growth names known as the “Magnificent 7,” companies heavily involved in the development of artificial intelligence (AI). Elsewhere in the U.S. stock market, returns were flat or negative — large-cap value, mid-cap growth and value, and small-cap growth and value all posted negative returns in the second quarter (based on Russell indices). For example, the Russell 1000 Growth index gained 8.33% in the quarter, while the Russell 2000 Value index declined -3.64%, a spread of over 1,100 bps.
- The bond market was mixed during the quarter as well. High yield had a strong quarter, while investment-grade corporate bonds declined. Given that yields were both up and down, rising early and falling late, government bonds were largely flat for the quarter. Interestingly, the big winner for the year has been high-yield municipal bonds, followed closely by high-yield corporates, while global bonds have delivered negative returns.
- Economic data was mixed in the quarter, with enough support for bulls and bears to claim that trends were moving their way. Inflation was higher than expected in March, but moderated as we entered the summer months. The first quarter GDP release showed promise, but upon further review, it showed that growth has slowed from the final readings of 2023. Finally, employment continued to surprise to the upside, but downward adjustments to the prior month’s figures raised concerns that unemployment might soon rise.
- Companies continue to see convertibles as an attractive structure to refinance existing traditional debt or short-dated convertibles, and the strong issuance pace of the first quarter continued into the second. Thirty-one new convertibles came to the U.S. market, with total proceeds of $26 billion during the second quarter, $5 billion more than the previous quarter. We believe this robust issuance will persist for the foreseeable future as companies seek to monetize increased equity pricing as well as minimize coupon interest paid.
- In the portfolio, both our Convertible Arbitrage and Yield allocations posted similar net returns in the quarter. With rates unchanged on the front end of the yield curve and credit spreads wider, performance was primarily driven by income received, as well as select equity exposure in the convertible arbitrage sleeve. Positive returns were hard to come by in the equity sleeve as small-cap stocks and convertible securities declined.
- With the underlying convertible-related equity market (small caps) moving sideways to marginally lower, we are slightly less bullish in the near term with net equity exposure of approximately 5%. The yield bucket is in line with the previous quarter’s weight of 22%, as we increased the convertible arbitrage weight to 77%. We were able to source newer convertible issues in the quarter that are higher in credit

20240809-3782225

and earnings quality and slightly longer in duration to maintain exposure to potential declining interest rates, while retaining equity upside. We will seek to add to the overall equity risk when we see additional clarity for the path and timing of rate cuts.

- Looking forward, we are optimistic about the convertible market's prospects. The convertible market features robust supply and demand activity, short duration and an asymmetric risk-reward profile, making it appealing to investors. Add in a current yield higher than the Bloomberg US Aggregate, and low correlations to both equities and traditional fixed income securities, and investors have the opportunity to obtain a steady and predictable total return.

Performance Update

As of June 30, 2024

Annualized Returns

	Inception Date	2Q24	YTD	1 Year	3 Year*	5 Year*	10 Year*	Since Inception*
WMNIX (Class I)	5/1/2015	0.75%	1.78%	6.06%	2.81%	4.27%	--	3.50%
WMNAX (Class A) *	3/31/2020	0.74%	1.76%	5.89%	2.71%	--	--	4.72%
WWACX (Class A with Load) **	3/31/2020	-2.28%	-1.29%	2.76%	1.66%	--	--	3.98%
WWACX (Class C)	3/31/2020	0.64%	1.44%	5.22%	1.99%	--	--	4.09%
WMNUX (Class Ultra)	5/1/2015	0.89%	1.84%	6.10%	2.93%	4.37%	--	3.60%
FTSE 1-Month Treasury Bill Index	5/1/2015	1.35%	2.73%	5.56%	3.11%	2.15%	--	1.61%
Bloomberg U.S. Aggregate Index	5/1/2015	0.07%	-0.71%	2.63%	-3.02%	-0.23%	--	1.15%

Annualized*

* Excludes sales charge. ** Reflects effects of the fund's maximum sales charge of 3.00%. Total Annual Fund Operating Expenses by Share Class (gross / net): Class I 0.61% / 0.35%, Class A 0.72% / 0.46%, Class C 1.47% / 1.21%, Class Ultra 0.47% / 0.21%.

Bloomberg U.S. Aggregate Bond Index represents securities that are U.S. domestic, taxable and dollar denominated. The index covers the U.S. investment-grade, fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities.

The performance data quoted represents past performance. Past performance is not indicative of future results. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please call 877.FUND.WHG. The adviser has contractually agreed to reduce fees and reimburse expenses until March 1, 2025.

Past performance is not indicative of future results. *Data Source: © 2024 FactSet Research Systems Inc. All Rights Reserved. Please see appendix for full performance disclosures. Disclosures are also available online at http://westwoodgroup.com/disclaimers.pdf. The disclosures provided are considered an integral part of this presentation.*

Market Commentary

Investors who ventured outside favored areas often suffered losses as equity gains in the second quarter were narrow and highly selective. Meanwhile, the bond market was largely flat, as economic reports painted a muddled picture of slowing growth and higher inflation, pushing expectations for future interest rate cuts further into the second half of the year.

As we entered the second quarter, there were continuing concerns about inflation and growth expectations and how that could impact the Federal Reserve's stance on future interest rate cuts. When the March CPI rate was announced at 3.5%, above estimates, interest rates jumped, pushing any expectations for a rate cut nearly off the table. But employment remained strong, and inflation subsided in subsequent reports, alleviating concerns over the direction of the economy and providing investors with enough reason to continue to purchase stocks.

By the end of the quarter, expectations for rate cuts had dwindled to just one or two, perhaps beginning in the fourth quarter. The primary question was whether the economy would continue its moderate growth pace or begin to show signs of decline. More recently, the final GDP estimate for the first quarter came in at 1.4%, less

than half the fourth quarter's final 3.4% figure. Moreover, the underlying data showed weaker consumer spending and lower disposable consumer income, coupled with higher local, state and federal government spending.

Stock prices, however, brushed off concerns over the economy and rallied through the end of the quarter, as major indexes reached all-time highs in June. The S&P 500 Index added 4.3% in the quarter and is up 15.3% year to date, while the venerable Dow Jones Industrial Average closed at a new high of over 40,000 in mid-May. Overall, stock market gains remained concentrated among just a few stocks, mainly in the "Magnificent 7" mega-cap stocks, driven mainly by growth expectations supporting artificial intelligence. Those seven stocks accounted for 45% of the S&P 500's return in the first half of the year and all of the second quarter's gain. The S&P 500 is as top-heavy as it has ever been, with 37.5% of the index concentrated in the 10 largest companies.

Outside of large-cap growth, every other market cap and style index was negative in the quarter — growth and value in the small-cap and mid-cap space declined, as did large-cap value. It's been a long run for growth stocks over value. Over the past five years, large-cap growth has outperformed large-cap value by over 10% annualized. The spread between large-cap and small-cap is nearly as wide — large-cap stocks have outperformed small-caps by nearly 8% annualized.

Looking closer at equity returns, the Information Technology and Telecommunication Services sectors of the S&P 500 Index were the big winners in the quarter, and for the year-to-date period. Six of the 11 sectors declined in the quarter, led by Materials and Industrials, potentially indicating economic weakness ahead.

In the bond market, returns were muted as interest rates held relatively steady in the quarter. High yield bonds led the way, as investors hope that a growing economy and stable interest rates may help stave off potential defaults. Longer-dated Treasury bonds declined as the long end of the yield curve rose, given expectations of higher rates for a longer period. The yield curve remained inverted, however, much to the consternation of economists who insist that yield curve inversion implies a future recession.

Risk Positioning

Duration	1.62	**Implied Average Credit Rating**	BB+
Global Equity Beta SI*	0.12	**Leverage**	0.99
Standard Deviation	3.25	**VaR (%)**	2.47
Yield (%)	5.3	**Net Delta**	5.97

Market Proxy: MSCI World Index Net($US).

Commentary Disclaimer:

For Institutional Use Only. Past performance is not indicative of future results. For purposes of compliance with the GIPS standards, the firm ("Westwood" or the "Firm") is defined as the assets of Westwood Management Corp. ("WMC") and Westwood Advisors, L.L.C. ("Westwood Advisors"). WMC and Westwood Advisors are wholly owned subsidiaries of Westwood Holdings Group, Inc. (NYSE: WHG). WMC and Westwood Advisors are both SEC registered investment advisers under the Investment Advisers Act of 1940. WMC provides investment advisory services, primarily managing equity and fixed income portfolios, and Westwood Advisors provides investment advisory services, primarily to individual clients and entities as part of Westwood's Wealth Management division. Registration does not imply a certain level of skill or training. On Feb. 1, 2018,

20240809-3782225

Westwood redefined the Firm by adding the assets of Westwood Advisors so that all SEC registered investment advisers under WHG would be included in the Firm definition. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request, as is a complete list and description of the Firm's composites, by contacting performance@westwoodgroup.com. Westwood claims compliance with the Global Investment Performance Standards (GIPS®).

This material contains the current opinions of the author, which are subject to change. We believe this material contains a balanced representation of the performance of the portfolio for the period, including a general summary of certain holdings that have both over and underperformed the expectations of the portfolio managers. Statements concerning financial market trends are based on current market conditions, which will fluctuate. Forecasts are inherently limited and should not be relied upon as an indicator of future results. The holdings identified as the five largest contributors and five largest detractors represent the largest contributors to and detractors from performance for the period for the representative account. The representative account was selected by the firm as it was deemed to best represent this strategy. A description of the methodology used to calculate the contribution analysis or a complete list of each holding's contribution to overall performance during the measurement period may be obtained by contacting info@westwoodgroup.com. The holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients during the stated measurement period. The reader should not assume that an investment in the securities identified was or will be profitable. Holdings may vary from account to account, subject to any client-imposed restrictions. Westwood's analysts closely monitor the securities held in our portfolios. Should a company's underlying fundamentals or valuation measures change, Westwood may re-evaluate its position and may sell part or all of its positions. All information provided herein is for informational purposes only and is not intended to be, and should not be interpreted as, an offer, solicitation, or recommendation to buy or sell or otherwise invest in any of the securities/sectors/countries that may be mentioned.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and is licensed for use by Westwood Management Corp. Neither MSCI, S&P nor any third party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (msci.com)

Portfolio Data Source: Westwood Management Corp. Benchmark Data Source: © 2024 FactSet Research Systems Inc. All Rights Reserved. MSCI Inc. is the source and owner of the trademarks, service marks, and copyrights related to its Indexes, which have been licensed for use by Westwood Management Corp.

20240809-3782225