Westwood®

Westwood **Alternative Income** Fund (WMNIX)

Commentary

1Q
2025

Performance Highlights

- Stocks began the year strong, then faded amid macroeconomic concerns and policy missteps from the Trump administration. In this environment, the Westwood Alternative Income Fund added 1.86%, while the benchmark FTSE 1-Month Treasury Bill returned 1.08%. For the past 12 months, the Fund returned 6.86%, compared to 5.08% for the benchmark.
- U.S. companies delivered strong fourth quarter earnings, with S&P 500 profits growing nearly 18%, the fastest pace since 2021. However, forward guidance was cautious, as 64% of companies that issued guidance cited a negative outlook for the first quarter. Market sentiment soured after Chinese startup DeepSeek revealed a low-cost, low-power AI model to rival ChatGPT, triggering sharp declines in growth, technology and industrials stocks — many of the same names that had driven stocks higher over the last two years. Policy uncertainty increased following a surprise tariff announcement on Canada and Mexico. The risks to growth and output led to a 10% drop in the S&P 500 and a nearly 13% decline in small caps. The Magnificent 7 growth stocks struggled, along with AI-related technology and industrials names, dragging growth indexes lower, while value stocks led. Large caps outpaced small caps, and value stocks outperformed across all market capitalizations.
- Despite a solid 2.4% GDP growth rate reported for the fourth quarter and cooling inflation (2.8% in February), signs of economic strain emerged. Consumer confidence fell to a four-year low in March, while the short-term expectations index hit a 12-year low. Manufacturing slipped into contraction, with the ISM Manufacturing PMI falling to 49, and rising input costs pushed the Prices Paid index up to 69.4%. Meanwhile, falling Treasury yields and widening credit spreads reflected growing caution in the bond market. These factors caused many analysts to revise GDP growth forecasts downward, with some indicating a recession may already be underway.
- Fund performance was primarily driven by neutral equity and long volatility exposures within the convertible arbitrage sleeve. Although widening credit spreads reduced returns in our higher-yield investments, we had already decreased our exposure in this area throughout the quarter, which helped minimize the negative impact. Small and midcap growth equities (the underlying universe of equities most associated with convertible securities) underperformed their large cap counterparts as investors priced in the prospects for a U.S. recession and a slowing global economy.
- Convertible issuance was muted during the first quarter. Twenty-two new convertibles came to the U.S. market with total proceeds of $14.7 billion, but the credit quality of the issuers was low. Convertible investors were happy to see new opportunities in the U.S. convertible market, and the new paper was easily absorbed.
- This year, we have increased our convertible arbitrage sleeve allocation through new investments and as our short-duration yield holdings naturally mature. We favor convertible arbitrage in this environment because it can benefit from rising market volatility through embedded options and frequent rebalancing. The portfolio now consists of 86% convertible arbitrage, 10% short-duration yield and a modest tactical cash position.
- In the yield sleeve, we are not replacing investments in this allocation as bonds mature, as we believe current credit spreads don't justify reinvestment amid potential liquidity shocks. We remain patient and are waiting for better risk-adjusted entry points.

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- We have reduced the portfolio's overall market sensitivity (net delta) to near zero due to uncertainty, including trade policy, inflation, and global growth. Our focus remains on securities that offer the best risk/reward ratio, with emphasis on strong business models and balance sheets. Market liquidity in convertibles remains healthy, and we are capitalizing on selective opportunities to acquire undervalued securities — often prices are pressured by long-only sellers trimming exposure. We believe these securities will appreciate as markets stabilize.
- Looking ahead, we are optimistic. The convertible market's short duration, asymmetric return potential and low correlation to traditional assets offer a compelling opportunity for steady, diversified total return.

Performance Update

As of March 31, 2025

Annualized Returns

	Inception Date	1Q25	YTD	1 Year	3 Year*	5 Year*	10 Year*	Since Inception*
WMNIX (Class I)	5/1/2015	1.86%	1.86%	6.86%	4.91%	5.35%	--	3.85%
WMNAX (Class A) **	3/31/2020	1.96%	1.96%	6.81%	4.78%	5.22%	--	5.22%
WWACX (Class A with Load) ***	3/31/2020	-1.12%	-1.12%	3.61%	3.72%	4.59%	--	4.59%
WMNUX (Class Ultra)	5/1/2015	1.90%	1.90%	7.14%	5.01%	5.46%	--	3.95%
FTSE 1-Month Treasury Bill Index	5/1/2015	1.08%	1.08%	5.08%	4.35%	2.61%	--	1.86%
Bloomberg U.S. Aggregate Index	5/1/2015	2.78%	2.78%	4.88%	0.52%	-0.40%	--	1.55%

*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 1.22% / 0.99%, Class A 1.33% / 1.10%, Class Ultra 1.08% / 0.85%.

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, 2026.

Past performance is not indicative of future results. *Data Source: © 2025 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

The U.S. stock market hit record highs in February but then declined sharply through quarter end. This transformed what started as an optimistic period into one marked by concerns about potential policy changes and slowing economic growth.

U.S. companies performed well from a fundamental perspective in the first quarter. According to FactSet, S&P 500 companies grew their earnings by nearly 18% in the fourth quarter of 2024, the fastest growth rate since fourth quarter of 2021. Additionally, 77% of S&P 500 companies beat their earnings per share estimates, showing better-than-expected results. Despite the strong quarterly data, companies appeared concerned about the future. According to FactSet data, 107 companies issued guidance for the first quarter, with 68 issuing negative guidance, a figure above the 5- and 10-year average. Only 39 companies issued positive guidance. The negative guidance ratio of 64% is above the 5- and 10-year average, indicating many business leaders are growing pessimistic about near-term performance.

In late January, a Chinese startup named DeepSeek announced a low-power, low-cost AI model that rivaled the quality of market leader ChatGPT. The announcement sent shockwaves through the market, with AI-related names from growth-oriented sectors like technology and industrials plummeting. The news greatly impacted the "Magnificent 7" stocks, which finally showed signs of weakness following the announcement. NVIDIA, a leader in AI, fell by more than 20%, while Tesla fared even worse, dropping more than 33% due to slowing growth and negative publicity. Notably, the equally weighted S&P 500 (which gives the same weight to all companies regardless of size) outperformed the market-cap-weighted index. This shift typically creates better opportunities for active investment managers.

In early February, the Trump administration announced a somewhat surprising policy to implement steep new tariffs on Canada and Mexico — key allies and trading partners. Although these tariffs were cancelled just days later, the damage to the stock market and business confidence was already done. Over the following three weeks, the S&P 500 fell about 10%, while the small-cap Russell 2000 fell nearly 13%. This short-lived policy created lasting uncertainty, causing analysts to lower corporate earnings estimates for the rest of 2025. Some reduced their S&P 500 forward earnings growth estimates to low single digits.

For the quarter, large-cap stocks outperformed small caps, as the Russell 1000 fell -4.49% and the Russell 2000 declined -9.48%. Value stocks outperformed growth across the capitalization spectrum, with particularly strong outperformance in the large-cap space (more than 12 percentage points), partially due to the underperformance of the Magnificent 7. Value-oriented sectors, including Energy, Health Care and Consumer Staples, led the S&P 500, while Information Technology and Consumer Discretionary were the laggards.

Global stocks showed strength in the quarter, perhaps a reaction to instability in American stocks. The MSCI Europe Index surged more than 10%, while the broader MSCI EAFE Index added nearly 7%. The MSCI ACWI ex-US Index, which measures stocks in developing countries outside the United States, added more than 5%, perhaps suggesting that diversifying with non-U.S. investments may be beneficial.

The bond market served as a safe haven this quarter, with the Bloomberg US Aggregate Index adding 2.78%, as yields plummeted following the mid-February tariff announcements. Ten-year Treasuries fell more than 50 bps, from a mid-January peak of 4.79% to 4.23%, while the 2-year Treasury sank from its high of 4.40% to 3.89%. The Treasury yield curve steepened with the spread between the 2-year and 10-year Treasury widening to more than 40 bps, the largest spread since May 2022.

Elsewhere in the debt market, investment grade credit performed better than high yield bonds, though both showed gains in the quarter. Risk premiums clearly increased, as the spread between high yield debt and 10-year treasuries grew from lows of 259 bps in mid-January to 355 bps by quarter end. Spreads haven’t widened as much since September 2023, which was another period when stocks corrected more than 10% over a couple of months.

Stepping beyond the headlines, the economy showed signs of instability amid the uncertainty caused by U.S. policy changes. While U.S. economic growth for the fourth quarter maintained a healthy 2.4% pace (slightly down from the third quarter) and inflation continued to decline (from 3.0% in January to 2.8% in February), several indicators pointed to trouble ahead. Consumer confidence fell in March to a four-year low, the consumer expectations index, reflecting the short-term outlook of consumers, dropped to its lowest level in 12 years, manufacturing began to show signs of contraction (ISM Manufacturing PMI decreased to 49 in March) with the first contraction since mid-2024, and the Prices Paid Index jumped to 69.4%, indicating rising input costs, which could pressure corporate profit margins. These factors caused many analysts to revise GDP growth forecasts downward, with some indicating a recession may already be underway.

Important Information

To determine if this Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the Fund's summary and full prospectuses, which may be obtained by calling 877.FUND.WHG, or by visiting our website at westwoodfunds.com. Read the prospectus carefully before investing or sending money.

The FTSE 1-Month Treasury Bill Index is an unmanaged index representing monthly return equivalents of yield averages of the last 1-month Treasury Bill issue. Index performance does not reflect any management fees, transaction costs or expenses. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index.

Diversification does not ensure a profit or guarantee against a loss.

The **S&P 500® Index** is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general. The **Russell 1000 Value Index** is a market-capitalization-weighted index of U.S. large-cap companies from the Russell 1000 that exhibit value characteristics like lower price-to-book ratios and lower forecasted growth. **Russell 1000 Growth Index** is a stock market index that tracks large U.S. companies exhibiting growth characteristics, typically those with higher price-to-book ratios and higher forecasted growth values. Index returns do not reflect any management fees, transaction costs or expenses. The Benchmark Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance does not reflect any management fees, transaction costs or expenses. The Benchmark Index is unmanaged, and investors cannot invest directly into an index. **Small cap** is a term used to refer to a company with a market capitalization between $300 million and $2 billion. A company's market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share. **Mid Caps** are companies with market capitalizations typically between $2 billion and $10 billion, representing medium-sized businesses that fall between small and large cap companies. **Large Caps** are companies with market capitalizations typically above $10 billion, representing the biggest and often most established businesses in the market. **SMid Cap** market is a market segment comprising both small-cap and mid-cap companies, typically with market capitalizations between $2 billion and $10 billion. **Delta** is the ratio that compares the change in the price of an asset, usually marketable securities, to the corresponding change in the price of its derivative. A derivative is a financial security with a value that is reliant upon or derived from an underlying asset or group of assets. **Convertible Arbitrage** is the simultaneous purchase and sale of an asset to profit from an imbalance in price. It is a trade that profits by exploiting the price differences of identical or similar financial instruments on different markets or in different forms. **Short-Duration Yield Convertible** is a short-term convertible bond. A convertible bond is a fixed-income corporate debt security that yields interest payments but can be converted into a predetermined number of common stock or equity shares. **Earnings per Share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. **Basis Points (bps)** are a unit of measurement equal to 1/100th of 1% (0.01%); commonly used to express changes in interest rates and financial metrics. The **Magnificent 7** is a group of leading tech stocks consisting of Apple, Microsoft, Alphabet, Amazon, NVIDIA, Meta and Tesla that have significantly influenced market performance since 2023. **Yield Sleeve** refers to a specific portion or segment of a fixed-income investment portfolio that targets a particular yield or return objective. **Credit Spread** is the difference in yield between two bonds of similar maturity but different credit quality. **Convertibles** (or convertible bonds) are corporate bonds that can be converted into a predetermined number of shares of the company's common stock at the bondholder's option. They are hybrid securities that combine features of both bonds and stocks — offering regular interest payments like bonds, with the potential to participate in stock price appreciation.

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