Westwood®

Westwood **Income Opportunity Fund (WHGIX)**

Commentary

3Q
2024

Performance Highlights

- While the S&P 500 posted gains in the quarter, the gains were narrow and limited to a small section of the market. In this environment, the Westwood Income Opportunity Fund outperformed its blended benchmark index, the 40% S&P 500 Index/60% Bloomberg U.S. Aggregate Index. The Fund gained 5.83% while the blended benchmark returned 5.48%. The primary benchmark (Russell 3000 Index) returned 6.23% during the period.
- In the third quarter, the U.S. stock market maintained its upward trajectory, but the nature of the rally shifted as it broadened. Small-cap stocks led a brief surge in early July, with the Russell 2000 Index gaining more than 10% in a single week. However, the Bank of Japan's decision to raise interest rates, ending the Yen carry trade, triggered a temporary market decline, causing the S&P 500 to fall by 8.5% over three weeks. Stocks quickly rebounded, pushing domestic equity indices to new highs as the quarter closed. Small- and mid-cap stocks outperformed large-caps, while value stocks outshined growth, which lagged as the previously dominant "Magnificent 7" tech companies underperformed. On a sector level, Utilities and Real Estate surged due to their interest rate sensitivity, while Information Technology, Telecommunications and Energy struggled. Utilities edged ahead of tech stocks for the year-to-date, though Information Technology still led on a one- and two-year basis.
- The U.S. economy continued its growth trend, despite some mixed signals. Inflation, as measured by the Consumer Price Index (CPI), trended downward, with the August reading at 2.5%, a significant drop from 3.7% a year ago and the 9% high seen in mid-2022. However, the employment situation raised concerns, as unemployment edged up slightly and new jobless claims rose. Other economic indicators, like manufacturing health, new orders and personal bankruptcies, were also troubling. In response, the Federal Reserve cut its benchmark fed funds rate by 0.50%, a widely anticipated move. The Fed noted that while inflation was nearing its 2% target, job growth had slowed, making the rate cut necessary to balance economic risks.
- The bond market began pricing in a potential Federal Reserve rate cut much earlier in the year, reflected by falling yields since May. In the third quarter, the 10-year Treasury yield dropped 67 basis points to close at 3.81%, and the two-year yield fell 111 basis points to 3.66%. This shift led to the Treasury yield curve returning to its normal shape after over two years of inversion. Investment-grade corporate bonds outperformed high-yield bonds, while longer-dated Treasuries did better than short-term ones, consistent with a falling rate environment.
- In the quarter, the strategy outperformance was driven primarily by asset allocation, which benefited from both the fixed income and the equity weightings. Within equity, the portfolio benefited from an allocation to Real Estate and Utilities, sectors that performed well as interest rates were declining. The portfolio also benefited from a broadening of the market, as the majority of the Magnificent 7 stocks underperformed and other parts of the market, primarily value-oriented stocks, gained ground.
- We have reduced our fixed-income holdings as yields have fallen and added to our equity weight. In reducing the fixed income allocation, we have sold our shorter-duration holdings, as those have benefited the most from the steepening of the yield curve; this has allowed us to maintain our overall portfolio duration and added to our bond performance. As corporate bond yield spreads are near historic lows relative to averages, we have slowly reduced corporate bond exposure in favor of government issues.
- We have added to our equity exposure, primarily in interest-rate sensitive sectors such as Real Estate and Utilities. We also favor value stocks over growth stocks, given the historically high valuations in the market, and we have

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increased our exposure to small-cap and mid-cap names that we expect to do well in a falling fed funds rate environment.

Top Contributors: JPMorgan Chase & Co. (JPM), Nextera Energy Capital Holdings Inc. 3.000% Due 3/1/27, NNN REIT Inc. (NNN), Cisco Systems Inc. (CSCO), JPMorgan Equity Premium Income ETF (JEPI)

Top Detractors: ASML Holding NV ADR (ASML), Hewlett Packard Enterprise Co. (HPE), Charles Schwab Corp. (SCHW), Micron Technology Inc. (MU), Taiwan Semiconductor manufacturing Co. (TSM)

Top 10 Holdings as of 9/30/2024

UST 4.625% Due 5/15/24	UST 4.375% Due 5/15/34
Microsoft Corp.	Goldman Sachs Group Inc.
JPMorgan Chase & Co.	Lowe's Companies Inc.
Energy Transfer LP	JPMorgan NASDAQ Equity Premium Income ETF
Walmart Inc.	Gilead Sciences Inc.

Top 10 Holdings represents 24.85% of the total portfolio and represents the ten largest portfolio positions by market value in the Fund as of the period end date. Each quarter, the Westwood Funds use this same objective, non-performance based criteria to select the ten largest holdings. Holdings are subject to change. Current and future portfolio holdings are subject to risk.

Performance Update

As of September 30, 2024

Trailing Year Performance

	Inception Date	3Q24	YTD	1 Year	3 Year*	5 Year*	10 Year*	Since Inception*
WHGIX (Class I)	12/19/2005	5.83%	9.99%	19.34%	2.59%	5.40%	5.23%	6.45%
WWAIX (Class A) **	12/31/2007	5.71%	9.78%	19.07%	2.36%	5.16%	4.98%	6.26%
WWIAX (Class A with Load) ***	12/31/2007	2.54%	6.53%	15.50%	1.34%	4.52%	4.66%	6.06%
WWICX (Class C)	9/03/2019	5.55%	9.22%	18.30%	1.62%	4.39%	--	4.57%
WHGOX (Class Ultra)	11/30/2022	5.77%	10.08%	19.35%	--	--	--	9.88%
Russell 3000 Index	12/19/2005	6.23%	20.63%	35.19%	10.29%	15.26%	12.83%	10.38%
60% Bloomberg U.S. Aggregate Bond Index 40% / S&P 500 Index	12/31/2007	5.48%	11.27%	21.03%	3.96%	6.65%	6.58%	6.43%

*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 0.81% / 0.81%, Class A 0.99% / 0.99%, Class C 1.74% / 1.74%, Class Ultra 0.74% / 0.74%. The adviser has contractually agreed to reduce fees and reimburse expenses until March 1, 2025.

Blended Benchmark is 40% S&P 500 / 60% Bloomberg Barclays U.S. Aggregate Bond Index. Russell 3000 Index is a market capitalization-weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire U.S. stock market. The index is composed of the 3,000 largest U.S. companies and represents approximately 98% of the investable U.S. equity market. ***The performance data quoted represents past performance. Past performance is not indicative of future results. The investment return and principal value***

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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.

Westwood Multi-Asset | **Capital Markets Outlook**

As of October 2024

Operative Scenario **Keep Driving, but Slow Down for Construction** *60% Probability*	• Financial conditions remain supportive and importantly, the path of continued policy cutting is clear. • **Inflation is slowing and nearing the Fed's target.** Rising unemployment likely to abate. • **Earnings remain positive,** as margins have held in better than expected despite revenue growth a touch lower. Earnings growth to remain above trend. • **Parts of the economy are slowing** with inflation, but better real income growth and resilient consumer spending. • **U.S. election cycle** leads to policy, fiscal spending and regulatory uncertainty.
Scenario #2 (Upside) **Just a Fed Flesh Wound** *25% Probability*	• Dropping inflation leads the **Fed to lower rates faster/more than current market expectations.** • Job openings drop, but unemployment stays muted, reducing wage pressure. • **International economy resilient** and consumption demand. • **Improving consumer confidence** leads to continued spending and more CapEx. • **Global economic growth** picks up quickly with dropping global rates, and commodities cycle resumes.
Scenario #3 (Downside) **Yellow is Slowdown, Not Speed Up!** *15% Probability*	• **Higher/sticky elevated inflation** drives cost cutting to maintain margins. And only a few Fed cuts. • Long-term "neutral rate" resets higher, leading to a **negative response cycle from equities.** • Unemployment rises more quickly than expected, and coupled with high borrowing rates, leads to **increased company defaults.** • Economic output drops while inflation remains elevated. **Hard landing.** • **Promise of AI bubble** deflates some as the ROI from capital spending doesn't materialize. • Housing has a delayed **negative response to higher rates** as worsening jobs picture forces sales.

Base Case Outlook – End of 2024	*Our View*	*Consensus View*
Real GDP	**+2.5%**	**2.5%**
Core Inflation	**2.5%**	**2.7%**
Fed Funds Rate	**4.25%**	**5.0% current** *Three rate cuts*
Oil (WTI)	**$68/bl 2024e**	
Unemployment Rate	**4.25%**	**4.1%**
S&P 500	$245EPS (2024 year-end)	

Westwood Multi-Asset | **Strategic Views**

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<table>
<tr><th>Viewpoint</th><th>Current Views – October 2024</th></tr>
<tr><td>Equities</td><td>Positive – Fed easing potential especially in small- and mid-cap; elevated broad market valuations
Trend growth but upside potential and inflation falling
Monitoring labor market for any incremental signs of weakness
Resilient consumption remains with positive sentiment</td></tr>
<tr><td>Credit</td><td>Neutral – Elevated yields still attractive; Energy and Health Care sectors elevated broad market valuations
Credit spreads natural to too narrow
Resilient balance sheets and elevated headline of weakness
Offers good risk-return in a low(er) growth environment
Lots of new lending opportunities this year</td></tr>
<tr><td>Rates</td><td>Natural duration; yield curve steepening
Two- to five-year yields drop; 10-year yields remain range-bound
Fed rate hiking cycle done
Impact of monetary action and fiscal inaction impacts intermediate (10-year +) rates
“Insurance policy” of holding duration valuable and good income</td></tr>
<tr><td>Thematic and Sector Outlook</td><td>Select Clean Energy – elevated energy prices help emerging markets
Artificial Intelligence/Chips – AI theme spreads and broadens to small- and mid-cap stocks; chip supply/demand imbalance equates to long-term demand
mRNA vaccines and weight loss drug innovation continue to impact health care spending
Quality/Value orientation</td></tr>
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Market Review

After a brief mid-quarter shock, the U.S. stock market continued its steady upward trend in the third quarter. But while the trend remained the same, the character of the rally changed. The market broadened significantly as more stocks participated in the rally, spurring domestic equity indices to new all-time highs.

Small-cap stocks rallied to begin the quarter, pushing the Russell 2000 Index ahead by more than 10% in about a week in early July. But equity investors were agitated in early August after the Bank of Japan announced they would raise interest rates, effectively ending the Yen carry trade — investors would borrow in Yen (at near-zero rates) and invest in dollars, or more likely in large growth stocks. Equity markets around the world to crumbled and the S&P 500 gave up nearly 8.5% in about three weeks. However, investors quickly shrugged off the decline and stocks rebounded just as quickly to end September at a new high.

For the quarter, small- and mid-cap stocks outperformed large-caps. Value stocks outperformed growth, as represented by the “Magnificent 7,” which formerly led the markets higher, and as a group, underperformed the broad market. The rally in equities has been historic and driven primarily by large-cap growth stocks. Over the past two years, the Russell 1000 Growth Index has gained 34.8% annualized, more than double the 16.5% return of the Russell 2000 Value Index.

At the sector level, within the S&P 500, formerly market-leading Information Technology, Telecommunication Services and Energy sectors all struggled in the third quarter. The Utilities and Real Estate sectors, both sensitive to changes in

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interest rates, leaped ahead and rewarded investors for their patience. Year to date, Utilities have eased ahead of Information Technology, though technology still leads for the trailing one-year and two-year periods.

Meanwhile, the U.S. economy remained in growth mode, despite some concerning data points. Two key measures to watch are inflation, measured by the Consumer Price Index (CPI), and the employment situation, viewed as a combination of the unemployment rate and initial jobless claims primarily. Inflation continued to trend down; the August reading came in at 2.5%, well below the 3.7% report of 12 months ago and the high of 9% in mid-2022. The employment situation was a bit more concerning, as the unemployment rate ticked up during the quarter, and new jobless claims rose. Other measures such as manufacturing health, new orders and personal bankruptcies were not trending positively, creating further concern among economists.

The Federal Reserve had been expected to make a move, and finally reduced its benchmark fed funds rate in September, cutting rates by 0.50%. The Fed noted that while inflation was making progress toward its 2% goal, job gains have slowed, so the balance of risks between growth and recession moved them to make the rate cut.

The bond market had been in the process of pricing in the Fed rate cut since May, when market yields hit their highs. Treasury yields continued their decline in the third quarter, as the 10-year yield fell from 4.48% to 3.81%, a drop of 67 bps, and the two-year Treasury fell from 4.77% to 3.66%, or 111 bps. After being inverted for two years, the Treasury yield curve returned to its typical shape.

Looking closer at the bond market, investment-grade corporate credit outperformed high yield, while government bonds and municipal issues trailed. Longer-dated Treasury bonds outperformed the short end of the yield curve, as one would expect in a falling rate environment.

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 or full prospectus, which may be obtained by calling 877.FUND.WHG (877-386-3944), or by visiting our website at westwoodfunds.com. Read the prospectus carefully before investing or sending money.

Mutual fund investing involves risk, including possible loss of principal. Bonds and bond funds are subject to interest rate risk and will decline in value as interest rates rise. High yield bonds involve greater risks of default or downgrade and are more volatile than investment grade securities, due to the speculative nature of their investments. Convertible securities are influenced by changes in interest rates (with investment value declining as interest rates increase) and the credit standing of the issuer. The price of a convertible security will also normally vary in some proportion to changes in the price of the underlying common stock. There is no guarantee that the Fund will achieve its stated objective, which can be found in the full and summary prospectus.

The Russell 3000 Index is a market capitalization-weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire U.S. stock market. The index is composed of the 3,000 largest U.S. companies and represents approximately 98% of the investable U.S. equity market. The Bloomberg U.S. Aggregate Bond Index is a broad base bond market index representing intermediate term investment grade bonds traded in the United States. The S&P 500 Index is a market value weighted index consisting of 500 stocks chosen for market size, liquidity, and industry group representation, with each stock's weight in the Index proportionate to its market value. 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

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index. Growth is a term used to refer to a share in a company that is anticipated to grow at a rate significantly above the average for the market. Value is a term used to refer to a company that tends to trade at a lower price relative to its fundamentals, such as dividends, earnings and sales, making them appealing to value investors. Large cap is a term used to refer to a company with a market capitalization value of more than $10 billion. A company's market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Diversification does not protect against market loss.

This material represents the manager's assessment of the market environment and should not be relied upon by the reader as research or investment advice regarding any security, nor is it intended to be a forecast of future events or a guarantee of future results.

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