



## Westwood Income Opportunity Fund Commentary

4Q  
2025

### Performance Highlights

- Stocks capped off a strong year in the fourth quarter, with many major indices reaching new all-time highs before a late-quarter pullback. The S&P 500 maintained a three-year streak of double-digit gains amidst the Federal Reserve delivering two rate cuts during the quarter. The rate cuts brought the federal funds rate to its lowest level in three years, as the Federal Reserve continued to evaluate economic conditions and policy direction. The shift in market leadership that began in the third quarter continued, with value stocks across the market-cap spectrum, outperforming their growth counterparts. In the bond market, short-term Treasury yields declined following rate cuts, while the 10-year yield remained above 4% at year-end. Corporate bond yields were little changed during the quarter, as credit spreads remained tight. In this environment, the Westwood Income Opportunity Fund (Class I) returned 2.54%, outperforming the blended benchmark of 60% Bloomberg U.S. Aggregate Index/40% S&P 500® Index, which added 1.72%.
- Market resilience persisted throughout the quarter despite the longest government shutdown in U.S. history, weak consumer sentiment and slowing growth in the job market. Inflation remained above the Fed's 2% target but retracted from mid-year peaks, while gross domestic product (GDP) growth remained steady, underpinned by strong consumer spending and business investment. High yield credit held up well toward the end of the period, resulting in relative outperformance compared to investment grades and Treasuries.
- The equity sleeve of the portfolio was the primary driver of outperformance in the quarter, with strong security selection and an overweight allocation to the asset class relative to the benchmark. The fixed income sleeve detracted modestly from relative performance, primarily due to selection within the asset class.
- Within the equity sleeve, stock selection in common equity was the primary contributor to outperformance, while the allocation to convertible securities mitigated a portion of overall equity outperformance. At the sector level, the top contributor to performance was the Information Technology sector, followed by Materials and Financials. The Industrials, Consumer Discretionary and Utilities sectors were the largest detractors from performance.
- Among our top performers, Micron Technology Inc. (MU) surged throughout the quarter on record financial results, bullish guidance and soaring dynamic random-access memory (DRAM) chip prices due to strong AI demand. Shares of Alphabet Inc. Class A (GOOGL) gained after a strong earnings report, with revenue and EPS markedly above expectations, supported by Google Cloud's substantial growth and backlog, and the launch of Gemini 3.
- Barrick Mining Corp. (B) advanced throughout the quarter, fueled by strong financial performance, a higher dividend, strategic asset sales and macro trends in precious metals. Shares of FedEx Corp. (FDX) rose as the company reaffirmed progress on its cost-saving initiatives, reported stable holiday operations and completed a significant tranche of its share repurchase plan, signaling strong financial health. Gilead Sciences Inc. (GILD) gained on strong earnings that highlighted the durability of its HIV drug portfolio, positive pipeline moves and acquisitions to enhance its oncology footprint.
- Kratos Defense & Security Solutions Inc. (KTOS) was the leading detractor from performance for the quarter, declining on a revenue guidance miss, a major Department of Defense contract delay and insider selling in late December, as the CEO reduced his stake by over 20%. Shares of Microsoft Corp. (MSFT) fell after capex guidance ignited cost concerns and the company faced a wide-ranging U.S. antitrust probe, adding to its recent regulatory and governance scrutiny.



- Home Depot Inc. (HD) declined as the company reported an earnings miss and management revised guidance downward, warning of weak consumer demand. Shares of Gitlab Inc. Class A (GTLB) fell after reporting guidance misses and subsequent downward revisions that disappointed investors. Multiple firms downgraded the company, citing concerns over pricing power and execution risks amid its business model shift. Rounding out the bottom detractors, WEC Energy Group Inc. (WEC) declined during the period, as elevated capital expenditures and higher borrowing costs weighed on shares.
- In the fixed income sleeve of the portfolio, Government securities, particularly Treasury and Securitized, were the largest detractors from relative performance, with High Yield Corporate securities offsetting a portion of the underperformance. Selection in securitized bonds was the primary driver of relative underperformance, while longer-dated Treasuries underperformed as two rate cuts during the quarter contributed to a steepening of the yield curve. The portfolio's underweight allocation to fixed income helped offset a portion of the underperformance.
- On a tactical level, the Fund has continued to maintain the overweight to equities since the mid-April bottom, a position that has benefited the portfolio as equities closed out another year of strong performance. The Fund continues to be overweight corporate credit and underweight Treasury securities.

## Performance Drivers

Top Contributors	Top Detractors
Micron Technology Inc.	Kratos Defense & Security Solutions Inc.
Alphabet Inc. Class A	Microsoft Corp.
Barrick Mining Corp.	Home Depot Inc.
FedEx Corp.	Mara Holdings Inc. 0.000% Due 8/1/32
Gilead Sciences Inc.	Integer Holdings Corp. 2.125% Due 2/15/28

## Top 10 Holdings as of 12/31/2025

5y T-Note Contract Expiring 3/26	Euro FX 3/26
2y T-Note Contract Expiring 3/26	Gilead Sciences Inc.
Alphabet Inc.	Wells Fargo & Co.
Micron Technology Corp.	Ultra US T-Bond 3/26
Microsoft Corp.	Barrick Mining Corp.

Top 10 Holdings represents 26.27% 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 December 31, 2025

### Trailing Year Performance

	Inception Date	4Q25	YTD	1 Year	3 Year*	5 Year*	10 Year*	Since Inception*
WHGIX (Class I)	12/19/2005	2.54%	11.90%	11.90%	10.29%	4.89%	6.42%	6.59%
WWAIX (Class A) **	12/31/2007	2.50%	11.73%	11.73%	10.12%	4.68%	6.19%	6.42%
WWIAIX (Class A with Load) ***	12/31/2007	-0.55%	8.38%	8.38%	9.02%	4.06%	5.86%	6.24%
WWICIX (Class C)	9/03/2019	2.32%	10.96%	10.96%	9.32%	3.92%	--	5.19%
WHGOX (Class Ultra)	11/30/2022	2.56%	12.00%	12.00%	10.39%	--	--	9.46%
Russell 3000 Index	12/19/2005	2.40%	17.15%	17.15%	22.25%	13.15%	14.29%	10.71%
60% Bloomberg U.S. Aggregate Bond Index / 40% S&P 500 Index	12/19/2005	1.72%	11.58%	11.58%	11.79%	5.51%	7.21%	6.55%

\*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 0.84% / 0.84%, Class A 1.01% / 1.01%, Class C 1.76% / 1.76%, Class Ultra 0.76% / 0.76%. The adviser has contractually agreed to reduce fees and reimburse expenses until March 1, 2026.

***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.***

## Westwood Multi-Asset | Capital Markets Outlook

As of January 2025

### Operative Scenario – Fortunate Son

50% Probability

- Trend plus economic growth improving as clarity on policy leads to better sentiment and spending.
- The Federal Reserve cuts toward neutral to support employment and administration goals.
- Financial conditions stable for companies as we see lower policy uncertainty.
- Continued inflation monitoring, though targeted tariff negotiations and clarity reduce risk.
- Resilient earnings growth, as margins have held in better than expected despite revenue growth a touch lower. Earnings growth outstrips expectations.
- Lower consumer sentiment until wages catch up to tariff-adjusted prices.

### Scenario #2 (Upside Risk) – Give Peace a Chance

25% Probability

- The Fed lowers rates faster/more than current market expectations.
- Unemployment doesn't rise and wage inflation catches up.
- International economy resilient and consumption demand remains strong.
- Turning consumer confidence leads to continued spending and more CapEx.
- Global economic growth picks up quickly with dropping global rates, and commodities cycle resumes.
- Catalysts for the bounce? The Art of the Deal. Trade negotiations start. Extension of tariff dates. Tax cut extension.

## Scenario #3 (Downside Risk) – Master of War

*25% Probability*

- Rising inflation drives cost-cutting to maintain margins. The Fed has to stop cutting rates to control inflation.
- Global trade war (re)escalates.
- Unemployment rises more quickly than expected and coupled with elevated borrowing rates, leads to increased company defaults.
- Economic output drops while inflation remains elevated. Stagflation and hard landing.
- Promise of AI bubble deflates some as the return on investment (ROI) from capital spending doesn't materialize.
- Housing continues to struggle with home prices falling more broadly in response to a worsening jobs picture and elevated rates.

Base Case Outlook – End of 2026	Our View	Consensus View
Real GDP	+2.3%	2.1%
Core Inflation	2.7%	2.8%
Fed Funds Rate	3.25%	3.75% current, two more rate cuts
Oil (WTI)	\$57/bl 2025e	
Unemployment Rate	4.5%	4.4%
S&P 500	\$305 EPS (2026 year-end)	

Source: Bloomberg

## Westwood Multi-Asset | Strategic Views

*January 2025*

**Equities: Positive** Fed easing; select opportunities during economic adjustment Below-trend growth but divergence potential for selection

- Trend plus growth but better earnings from companies with margin improvement
- Labor market signs of incremental weakness
- Resilient consumption reliant on lower income improvement

**Credit: Neutral** elevated yields still attractive, but broad credit compensation low Credit spreads reflect easy environment

- Credit spreads reflect easy environment
- Can still find good balance sheets and elevated headline yield protection
- Offers decent risk-return in a low(er) growth environment
- Closely monitor credit conditions

**Rates: Neutral Duration** – Curve steeping; 2- to 5-year yields drop; 10-year yields range-bound

- Fed rate accommodative, but less so
- Impact of monetary action and fiscal inaction impacts intermediate (10-year+) rates
- “Insurance policy” of holding duration valuable and good income

**Thematic and Sector Outlook:** Gene editing, digital currencies, quantum computing, AI plays in industrials: Quality/Value orientation

- AI theme spreads; broadening to small-/mid-cap
- Chip supply/demand imbalance = long-term demand
- Weight loss innovation continues to impact
- U.S. manufacturing partners

## Market Review

In the fourth quarter, Federal Reserve interest rate policy and pronouncements drew significant investor attention. The Fed followed a 0.25% September interest rate cut with similar cuts in October and December. Notably, by year's end, Fed policymakers were unusually divided on whether rate cuts should continue in early 2026 or if monetary policy should hold steady pending more clarity around economic data.

The Fed's actions appeared to have a limited impact on the benchmark 10-year Treasury bond yield. In late October, yields briefly fell below 4% before rising to nearly 4.2% by year-end. Shorter-term yields also declined, mostly tracking with Fed rate cuts. For the year, bond markets, supported by declining yields, mostly generated positive total returns, with the Bloomberg U.S. Aggregate Bond Index gaining more than 7%.

Although key equity market indices, including the S&P 500, reached new records in late 2025, the fourth quarter saw investors pulled in different directions. The stock market maintained some momentum from the second and third quarters, although gains were muted. The S&P 500 was up less than 3% for the quarter, ending the year with an 18% gain. Small- and mid-cap stocks retreated modestly in the fourth quarter. As in 2023 and 2024, large-cap stocks comfortably outpaced small- and mid-cap stocks.

Signs of fatigue in the long-surge Technology sector started to appear in December. While much of the recent stock market rally is attributed to enthusiasm for advances in artificial intelligence (AI), late in the year, investors shifted focus from AI's potential to more tangible financial results. This led technology stocks to give back some of their gains later in the year. However, as in the prior two years, for all of 2025, the Communication Services and Information Technology sectors easily outperformed the rest of the market. Industrials, Utilities, Financials and Health Care also delivered strong returns but lagged behind the leading sectors.

In the fourth quarter, investors wary of a potential "AI bubble" turned to more defensive stocks. The Health Care sector was a beneficiary, generating double-digit returns. Communication Services stocks were the only other sector to outpace the broader market's quarterly return. Value stocks modestly outperformed growth stocks in the fourth quarter, but for all of 2025, growth stocks maintained a solid edge.

The U.S. economy experienced modest growth, although data releases were disrupted by October's federal government shutdown, leaving an incomplete picture. The nation's unemployment rate continued to climb, reaching 4.6% in November, while job growth decelerated. Consumers stayed resilient, however, as retail sales maintained steady, if modest, growth. Consumers continued to drive economic growth, with the nation's Gross Domestic Product (GDP) increasing at an annualized 4.3% in the third quarter. Still, as has been the case for much of 2025, measures of consumer confidence remained near all-time lows.

Despite facing economic headwinds from increased U.S. tariffs and a persistent property overhang, China's economy showed unexpected resilience. Emerging market stocks gained, outperforming other equity segments. In the final months of 2025, the dollar weakened, boosting overseas investment returns for domestic investors.

Investors seemed to focus primarily on fundamental factors such as corporate earnings and consumer spending. Geopolitical tensions took a back seat, although many issues remain. The ongoing Russia-Ukraine conflict and increasing U.S. military actions against Venezuela remain key headline concerns. Although Venezuela is a significant

oil producer, U.S. disruptions of oil shipments did not seem to prevent oil prices from declining. A stronger-than-expected global economy provided the underpinning for a generally favorable investment environment.

## Outlook

Following three straight years of double-digit returns, a key question for 2026 is whether equity markets can sustain positive momentum and what will continue to drive a rally. Although issues like high inflation and rising unemployment could pose economic challenges, the economy remains poised for modest, near-term growth. On the surface, at least, this provides a supportive foundation for stocks.

The latest inflation figures showed the Consumer Price Index for the past 12 months, ending in November, falling below 3%. While government shutdown-related data interruptions might have temporarily skewed the trend, it provided some reasons for optimism about inflation's direction. Consumers' ability to sustain reasonable spending growth remains uncertain. A slowing labor market raises concerns that consumers may become more cautious, potentially hindering economic growth.

Following three rate cuts in late 2025, Federal Reserve policymakers indicated a more cautious approach moving forward. Fed Chair Jerome Powell's second term concludes in June, with President Donald Trump expected to select a replacement soon. Whether this change signifies a major shift in monetary policy remains unclear, as many voting members of the Federal Open Market Committee will continue to serve.

A key question for stock investors is whether the AI-driven rally that supported the market's multi-year rise risks turning into a bubble that could burst, leading to a market decline. Although technology stocks, which benefited significantly from increased AI investment, weathered volatility in 2025, the outlook remains ambiguous. If investors become more cautious about stock valuations, other sectors beyond Communication Services and Information Technology might emerge as market leaders. Evidence of broader market participation emerged in 2025, a trend that may persist if concerns about inflation and technology stock valuations materialize.

The AI-driven trading that propelled markets in recent years seemed to slow slightly in the fourth quarter, with market leadership beginning to broaden beyond technology sectors. Despite signs that inflation might be moderating, bond yields trended modestly higher, mainly because of the Fed's cautious future guidance on interest rates.

Following a year of solid performance, bond investors will continue to monitor Fed policy moves and inflation data to determine whether the favorable environment persists. Equity investors could benefit from a more selective strategy, rather than relying on broad index returns to boost portfolio performance.

A new year is a good time to assess not just the past year, but also where the most attractive opportunities might lie ahead. In the current environment, investors appear increasingly focused on key fundamental factors such as the strength of the underlying economy, Fed monetary policy and stock valuations.

### 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](http://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 returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an 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 appeal to value investors. **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 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. **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. **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. **Earnings per Share (EPS)** is a company's net profit divided by its outstanding shares, indicating profitability on a per-share basis. **Gross Domestic Product (GDP)** is the total monetary value of all goods and services produced within a country's borders over a specific period, typically reported quarterly or annually. GDP is widely used as a comprehensive measure of a country's overall economic activity, growth and health. It includes consumer spending, business investment, government expenditures and net exports (exports minus imports). **Capex**, or *capital expenditures*, refers to the funds a company uses to acquire, upgrade or maintain physical assets such as property, buildings, technology or equipment. These expenditures are typically made to support or expand the company's long-term operations and are recorded as assets on the balance sheet rather than expenses on the income statement. **Stagflation** is an economic condition characterized by the combination of sluggish economic growth, high unemployment and elevated inflation occurring at the same time. This environment is considered challenging because traditional policy tools used to address inflation may worsen unemployment, while measures used to stimulate growth may worsen inflation.

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.

The Westwood Funds are distributed by Ultimus Fund Distributors, LLC. (Member FINRA) Ultimus Fund Distributors and Westwood Funds (or Westwood Holdings Group, Inc.) are separate and unaffiliated.