Westwood®

Westwood **Income Opportunity Fund (WHGIX)**

Commentary

1Q
2024

Performance Highlights

- Stocks posted strong gains in the quarter, while bond performance was a bit more challenged. In this environment, the Westwood Income Opportunity Fund slightly trailed its blended benchmark index, 40% S&P 500 Index® / 60% Bloomberg US Aggregate Index. The Fund returned 3.42%, compared to 3.68% for the blended benchmark.
- While equities carried their year-end momentum into the first quarter, the debt market experienced a more nuanced and mixed period. On the stock side, large- and mega-cap stocks, especially those involved with artificial intelligence (AI), led performance across the broad market. However, the rising tide continued to be fairly concentrated and did not lift all stocks evenly. Earnings growth was relatively strong overall, but investors are getting pickier when it comes to results and guidance as growth expectations are rising alongside topline economic conditions. And despite what seems to be an increasingly challenged, yet resilient consumer, headline economic data suggests a relatively strong economy. Large-cap stocks led across the market cap spectrum, and growth stocks generally outperformed value, regardless of market cap.
- The debt markets, meanwhile, remain focused on the trajectory of interest rates following one of the most aggressive monetary tightening cycles in history. With the Federal Reserve funds target rate at 5.25%-5.50%, we are at the highest level since the start of the 2008 financial crisis. In January, markets were confident that the Fed had largely contained inflation and would likely begin rate cuts in March, pricing in six cuts throughout 2024. The Fed quickly took a more hawkish stance as inflation remained stubbornly high in the January and February reports. The bond market did show signs of stabilization after a period of volatility, with yields on government bonds remaining relatively steady throughout the period. The 10-year Treasury yield, a key indicator for borrowing costs, closed the quarter at 4.20%, up from its final read in 2023 of 3.88%. The decline in the Treasury bond market reflects the Fed's cautious approach to interest rate cuts, now expected to total just three for the rest of the year. Corporate bond yields, on the other hand, experienced a slight increase, reflecting the improved credit outlook for many companies and the overall optimism in the market.
- Within the portfolio, our fixed income holdings outperformed the benchmark, while our common equity allocation lagged the S&P 500 Index. In the equity allocation, we benefited on a relative basis from positive stock selection in the **Consumer Discretionary and Consumer Staples** sectors, while our selections in **Information Technology** were beneficial on an absolute basis. Detractors to relative performance included our selections in **Health Care, Communication Services** and **Information Technology**; in the Technology sector, we had positive performance from our holdings, but we were underweight the benchmark.
- Within our fixed income allocation, government debt was a small detractor on a relative basis, as our decision to increase duration was a headwind in a period where interest rates increased. That said, we remain under allocated to duration and our tactical allocation across duration and quality yielded outperformance overall on the bond side of the portfolio. Many of our high yield positions continued to be a bright spot for the portfolio in terms of relative performance. In addition, our allocation to preferred stock fared well, providing a significant lift on both an absolute and relative basis.
- Given the benign risk environment, we have increased our allocation to equity securities, where we now stand at about 46% of the portfolio (39.6% equity; 6.6% convertibles). We favor value stocks as a general rule, though we have a few selected growth-oriented positions that have benefited from the ongoing technology rally.

- Within our bond portfolio, we have reduced the duration compared to our benchmark, positioning ourselves for a steeper yield curve, as we expect the so-called "neutral rate" to be higher than expected and the driver of the steepening. We have reduced our corporate bond exposure, as corporate bond spreads are low relative to historical averages.

Top Contributors: Microsoft Corp. (MSFT); Taiwan Semiconductor Manufacturing ADR; JP Morgan Chase & Co. (JPM); ASML Holding NV ADR (ASML); Energy Transfer LP

Top Detractors: Freeport McMoRan, Inc. (FCX); Apple Inc. (APPL); Gilead Sciences Inc. (GILD); AES Corp. Equity Unit; Newmont Corporation (NEM)

Top 10 Holdings as of 3/31/2024

Microsoft Corp.	Lowe's Companies Inc.
Energy Transfer LP	Taiwan Semiconductor Manufacturing Co. Ltd.
JPMorgan Chase & Co.	International Business Machines Corp.
JPMorgan NASDAQ Equity Premium Income ETF	Goldman Sachs Group Inc.
Amgen Inc.	ASML Holding NV ADR

Top 10 Holdings represents 16.65% 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 March 31, 2024

Trailing Year Performance

	1Q24	YTD	1 Year	3 Year*	5 Year*	10 Year*	Since Inception*
Westwood Income Opportunity Fund	3.42%	3.42%	10.63%	1.54%	5.42%	5.04%	6.27%
Blended Benchmark*	3.68%	3.68%	12.34%	3.14%	6.35%	6.23%	6.20%

*Annualized

*Blended Benchmark is 40% S&P 500 / 60% Bloomberg Barclays U.S. Aggregate Bond Index. Inception date is 12/19/05. ***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.*** Expense ratio for the Fund is 0.81% (net) and 0.81% (gross). The adviser has contractually agreed to reduce fees and reimburse expenses until March 31, 2024.

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

As of April 2024

Operative Scenario **Improved Economic Potential** *60% Probability*	**The Federal Reserve is done hiking.** Easing financial conditions continue to benefit markets and corporations borrowing. **Core inflation has remaining tailwinds to the downside,** especially in shelter/housing, at least through midyear. **Recent earnings appear positive,** though stronger in megacap tech than the broad economy. **Economic growth is stronger than expected** driven by better real income growth and still-low unemployment. **U.S. election cycle** leads to policy and regulatory uncertainty offset by elevated fiscal spending.
Scenario #2 (Upside) **Start the Engines for a New Race** *25% Probability*	• Dropping inflation leads the **Fed to lower rates in line or more than current market expectations.** • Job openings drop, but unemployment stays low, reducing wage pressure. • **Chinese stimulus helps reflate the economy** 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) **Lagged Impact of Fed Hikes** *15% Probability*	• **Higher/sticky elevated inflation** drives cost cutting to maintain margins. And no Fed cuts. • Long term “neutral rate” resets higher, leading to **a negative response cycle** from equities. • Rising unemployment and high borrowing rates mean **increased company defaults.** • Economic output drops while inflation remains elevated: h**ard landing.** • **Promise of AI bubble** deflates some, leading to multiple compression and/or broadening.

Base Case Outlook – End of 2024	*Our View*	*Consensus View*
Real GDP	**+2.1%**	**2.2%**
Core Inflation	**2.5%**	**2.5%**
Fed Funds Rate	**4.50% - 4.75%**	**4.4%** *(implied)*
Oil (WTI)	**$80/bl 2024e**	
Unemployment Rate	**4.0%**	**4.0%**
S&P 500	$240 EPS (2024 year-end)	

Westwood Multi-Asset | **Strategic Views**

Viewpoint	Current Views – April 2024
Equities	**Neutral – Fed no longer hiking rates; upside potential in small- and mid-cap; elevated broad market valuations** • **Growth below trend** but stable and **inflation falling** • **Very supportive financial conditions** for rate environment • **Resilient consumption** remains with positive sentiment
Credit	**Neutral – Eyes on credit cost and leverage; Energy and Health Care sectors improving** • **Credit spreads neutral in investment grade and high yield** • Resilient balance sheets • **Offers good risk-return** in a low(er) growth environment • Lots of **new lending opportunities this year**
Rates	**Negative duration; yield curve steepening** • Two- to five-year yields drop; 10-year yields remain range-bound to lower as lagged policy impacts growth outlook • **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
Thematic and Sector Outlook	1. Select **Clean energy** – elevated energy prices help emerging markets 2. **Artificial intelligence / Chips** – AI theme spreads and broadens to small- and mid-cap stocks; chip supply/demand imbalance equates to long-term demand 3. **mRNA vaccines** and weight loss drug innovation continue to impact health care spending 4. **Quality/Value orientation**

Market Review

Equity markets experienced overall growth in the first quarter of 2024, with both the Dow Jones Industrial Average and the S&P 500 setting record highs in the quarter. The closely watched S&P 500 returned 10.6%, marking the second quarter in a row of double-digit gains and reaching a new high of 5,245 in March. Broad-based market optimism, confidence in corporate earnings and any "landing" still to come in the economy fueled those markets. Large-cap stocks continued to outpace small-cap issues, though small- and mid-caps enjoyed a strong March. From a style perspective, growth outperformed value over the entire market cap spectrum.

Bond markets trended sideways to lower as resilient economic data and sticky inflation prompted a revival in the "higher for longer" interest rate case that was confirmed by the Fed in their March meeting. Despite the shift in the Fed's sentiment, investors continued to believe in a benign risk environment.

Technology stocks performed well, driven by increased demand for digital services and the positive outlook on innovation, technology adoption and AI. Energy was the second-best performing equity sector in the quarter, as concerns over the Middle East conflict kept oil and natural gas prices high. The Financials and Industrials sectors also saw significant gains, buoyed by the broader economic recovery and increased infrastructure spending.

The Magnificent 7 led the way for all stocks as AI remained a tremendous catalyst for earnings growth across a myriad of stocks and sectors. The Magnificent 7 were responsible for 40% of the S&P 500's year-to-date gain, compared to more than 60% last year.

The bond market was not as bullish as we saw late last year, but showed signs of stabilization, with yields on government bonds remaining relatively steady. The 10-year Treasury yield, a key indicator for borrowing costs, closed the quarter at 4.20%, up from its final read in 2023 of 3.88%. The decline in the Treasury bond market reflects the Fed's cautious approach to interest rate cuts, now expected to total just three for the rest of the year, less than half of what was expected in early January. Corporate bond yields, on the other hand, experienced a slight increase, reflecting the improved credit outlook for many companies and the overall optimism in the market.

In the U.S. economy, the first quarter saw a significant uptick in job creation, as over 1.5 million jobs were added across various sectors, most notably in technology, health care and manufacturing. This level of job creation points to a resilient and adaptable economy. On the other hand, there were an increasing number of layoffs and cost-cutting actions by companies large and small. Nearly 40% of business leaders surveyed by ResumeBuilder believe layoffs are likely at their companies this year, and about half say their companies will implement a hiring freeze.

Consumer spending remained strong in January and February, indicating relative confidence among the American public, with a notable increase in spending on durable goods. The housing market experienced a slowdown in price appreciation, suggesting a shift toward a more balanced market, though demand for housing remained healthy. Low-rate mortgage owners are staying put, restricting supply for now.

Global economic recovery efforts, particularly in major trading partners like the EU and China, have positively influenced American exports, contributing to the growth in manufacturing jobs and sectors reliant on international trade, but the relative economic health of many of our trading partners remains delicate. Recessions are occurring in the U.K., Finland and Ireland, and negative GDP rates for Q4 2023 were also reported in Germany and Canada.

International stocks are positive on the year, but are also showing divergence across regions and countries. The MSCI ACWI ex-U.S. Index was up 4.3% in the quarter, while the MSCI Emerging Markets Index gained 2.2%. Within developed international markets, Japan was certainly a standout, despite economic fragility and rising interest rates. Japan’s Nikkei 225 recaptured a high last made 35 years ago as the Bank of Japan increased its short-term borrowing rate for the first time in 17 years. Japanese companies continue to benefit from corporate reforms and a very weak yen, weighed by years of easing monetary policy.

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 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 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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