

## Performance Highlights

- Small-cap stocks continued their struggles, and value stocks in particular faced a difficult road in the second quarter. In this environment, the Westwood Quality SmallCap Fund underperformed its representative benchmark, returning 8.97% in the quarter, compared to a 10.15% return for the Russell 2000 Value Index. The primary benchmark, Russell 3000 Index, returned 6.23% for the quarter.
- 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.
- Within the portfolio, our relative performance was helped by stock selection, though asset allocation was a detractor. Both factors were roughly equal and opposite, so the bulk of underperformance in the quarter could be attributed to interaction. For example, we held an underweight position in Consumer Discretionary; though our securities did well, the sector itself underperformed the market, resulting in a negative total effect. Another example of negative interaction is our overweight position to the underperforming Materials sector, where our holdings underperformed as well.
- Our sector weightings changed during the quarter, largely as a result of market movements within the benchmark rather than security selection changes on our part. For example, our weight in the Financials sector declined slightly in the quarter, while our underweight relative to the benchmark increased. Likewise, our allocation to Industrials increased by 1%, while our overweight relative to the benchmark increased by more than 3%. Meanwhile, our allocation to Real Estate and Utilities held relatively steady, though we went from underweight to overweight relative to the benchmark.

## Performance Drivers

- On an absolute basis, we had double-digit returns in six of the 11 sectors, illustrating the broad-based rally. Four sectors offered negative returns (Information Technology, Consumer Staples, Energy and Materials).
- The security with the largest contribution in the quarter was **Baldwin Insurance Group (BWIN)**, which gained over 40% in the quarter and more than 100% this year. The insurance broker surged on the strength of strong quarterly earnings beyond the high end of previous guidance, and an increase in guidance going forward. **First Bancorp**

(FBNC) also showed strong gains, moving up after reporting higher fee income, lower expenses and improved net interest margin.

- Housing developer **Century Communities Inc. (CCS)** added over 25%, as they reported strong growth in deliveries and home sales revenue, supported by increased demand for affordable housing. Network equipment provider **Viavi Solutions Inc. (VIAV)** rebounded after last quarter's loss; the company reported an improvement in their higher-margin division. Last, **Hawkins Inc. (HWKN)** surged over 40% following an earnings report that showed an increase in sales and profit margins; the company has made several strategic acquisitions that have bolstered revenue.
- The leading detractor was **Vital Energy Inc. (VTLE)**, which missed its earnings target but underlying numbers such as production growth and free cash flow remained strong. **Ecovyst Inc. (ECVT)** declined after an earnings miss; even though they increased forward guidance, we chose to exit the position. **LegalZoom.com Inc. (LZ)** shed 30% in the quarter; the do-it-yourself legal website continued to have troubles with subscription growth, causing us to sell the position.
- **Sitio Royalties Corp. (STR)** declined following a decent quarterly report, where the headline earnings missed the estimate, but underlying data on production was positive, and the company raised their full year guidance. **Constellium SE (CSTM)** fell after reporting a 15% year-over-year decline in revenue, driven by a 5% decline in shipments, driven by weaker demand.

## Performance Update

As of September 30, 2024

### Trailing Years Performance

	Inception Date	3Q24	YTD	1 Year	3 Year*	5 Year*	10 Year*	Since Inception*
WHGSX (Class I)	4/02/2007	8.97%	7.27%	23.39%	5.93%	8.70%	8.80%	7.94%
WHGAX (Class A) *	9/03/2019	8.95%	7.19%	23.30%	5.81%	8.58%	--	9.63%
WHGAX (Class A with Load) **	9/03/2019	4.58%	2.91%	18.37%	4.38%	7.71%	--	8.75%
WHGCX (Class C)	9/03/2019	8.72%	6.57%	22.29%	5.00%	7.78%	--	8.83%
WWSYX (Class Ultra)	3/31/2020	8.96%	7.37%	23.51%	6.04%	--	--	18.50%
Russell 2000 Value Index	4/02/2007	10.15%	9.22%	25.88%	3.77%	9.29%	8.22%	6.44%
Russell 3000 Index	4/02/2007	6.23%	20.63%	35.19%	10.29%	15.26%	12.83%	10.20%

\*Annualized

\* Excludes sales charge. \*\* Reflects effects of the fund's maximum sales charge of 4.00%. Total Annual Fund Operating Expenses by Share Class (gross / net): Class I 1.05% / 0.92%, Class A 1.17% / 1.04%, Class C 1.92% / 1.79%, Class Ultra 0.92% / 0.79%. The Advisor has contractually agreed to waive fees and reimburse expense until March 1, 2025. In the absence of current fee waivers total return and yield would be reduced.

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.

### Calendar Year Returns

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
WHGSX	-32.11%	20.42%	23.23%	-1.40%	18.13%	49.39%	6.05%	-5.94%	28.33%	12.36%	-14.16%	27.13%	2.16%	27.93%	-12.46%	17.17%
Russell 2000 Value Index	-28.92%	20.58%	24.50%	-5.50%	18.05%	34.52%	4.22%	-7.47%	31.74%	7.84%	-12.86%	22.39%	4.63%	28.27%	-14.48%	14.65%
Russell 3000 Index	-37.31%	28.34%	16.93%	1.03%	16.42%	33.55%	12.56%	0.48%	12.74%	21.13%	-5.24%	31.02%	20.89%	25.66%	-19.21%	25.96%

High short-term performance of the fund is unusual and investors should not expect such performance to be repeated. **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.

### Potential Risks

Mutual fund investing involves risk, including possible loss of principal. There can be no assurance that the Fund will achieve its stated objectives. There are specific risks inherent in small cap investing such as greater share price volatility as compared to other funds that invest in stocks of companies with larger and potentially more stable market capitalizations.

## Top 10 Holdings as of 9/30/2024

GMS Inc.	SM Energy Co.
Verra Mobility Corp.	ArcBest Corp.
NorthWestern Energy Group Inc.	Piper Sandler Cos.
Viavi Solutions Inc.	Stepan Co.
Century Communities Inc.	Moog Inc.

Top 10 Holdings represents 20.91% 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.

## Fund Positioning and Trade Rationale

Positions were initiated in the following companies:

- **Rambus Inc. (RMBS)**, a designer and developer of memory chips that power PCs, servers and data centers, was added to the portfolio. We believe that the recent stock price decline puts the risk/reward ratio into an attractive position, and the impending shift from DDR4 to DDR5 chips should be a benefit as Rambus has a greater market share for the more advanced chipset.
- **Veeco Instruments (VECO)** makes process equipment used in the manufacture of semiconductors, hard disc drives and LEDs. The company trades at a discount to peers and should grow market share in the wafer fabrication equipment industry, driven by new technologies.

The following positions were sold from the portfolio:

- **Chuy's Holdings (CHUY)** was sold from the portfolio after it was announced that the company had agreed to be acquired by Darden Restaurants Inc. for about \$605 million.
- **Ecovyst Inc. (ECVT)** was sold from the portfolio following a poor earnings report and low forward guidance. We reallocated capital to better ideas.
- **LegalZoom Inc. (LZ)** was sold after the CEO departed in July. The company has had difficulties due to macro issues; the departure of senior leadership was a thesis violation, and we exited the position.

## 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.

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

For the quarter, small- and mid-cap stocks outperformed large-caps. Value stocks also outperformed growth, demonstrated by the “Magnificent 7,” which formerly led the market and as a group underperformed the broad market in the third quarter. The rally in equities has been historic and driven mainly 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 interest rates, leaped ahead and rewarded investors for their patience. For the 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, a combination of the unemployment rate, initial jobless claims, and a few other measures. Inflation continued to trend down, as the August reading came in at 2.5%, well below the 3.7% 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, though, had seen enough and decided to reduce its benchmark fed funds rate at the end of the period, cutting rates by 0.50%. It was perhaps the most telegraphed move in financial markets history. The Fed noted that while inflation was making progress toward its 2% goal, job gains have slowed, so the balance of risks moved in favor of a 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. In the quarter, the 10-year yield fell from 4.48% to 3.81%, a drop of 67 bps, while the two-year Treasury fell from 4.77% to 3.66%, or 111 bps. After two years, the Treasury yield curve returned to its typical shape, after being inverted for over two years. We’ve been told for two years that an inverted yield curve typically signals a recession — might this time be different?

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.

## Outlook

The Federal Reserve has dominated talk about the stock market for two and a half years, since the Fed began their campaign to cripple inflation. The rate hikes were unprecedented in the amount of the increase, the speed of the hiking campaign and the duration at the peak. Interest rates increased 525 basis points in just 17 months, and they stayed at their peak level for 14 months, one of the longest periods between the final increase and the first rate cut.

The market quickly moved from “When will the Fed cut?” to “Why did the Fed cut rates?”, a very different question. Economic news was mixed in the quarter, with inflation coming in lower but offset by weaker jobs numbers. Other indicators show some cracks in the firmament, though consumer demand and GDP growth remain strong.

There are plenty of reasons to argue for either continued expansion or a potential recession. Those who invoke a potential recession cite the inverted yield curve, which has forecast recessions in the past, though the curve retained a

more normal shape after the Fed cut rates. Another is the Sahm rule, a recession forecasting tool linked to former Federal Reserve economist Claudia Sahm. The Sahm rule notes that a recession may be starting when the three-month average of the unemployment rate increases by 0.5% or more from the lowest three-month average in the previous 12 months. The rule was triggered in September, as unemployment ticked up slightly.

Elsewhere, political uncertainty at home and conflicts abroad will no doubt lead to volatility through the fourth quarter and into the coming year. The third quarter featured President Joe Biden dramatically withdrawing from the race, the Democratic Party announcing Vice President Kamala Harris as the new candidate, and two assassination attempts on former President Trump. Given how tight polls are, we may not see a declared victor until well after Election Day on November 5. Needless to say, both candidates offer differing economic proposals that will have significant investment impact.

Looking forward, we expect to see continued uncertainty driven by the political situation both at home and abroad. We have concerns that the market may not be fully assessing the risk from international events and domestic politics. While we have a sophisticated risk assessment and management process in place, we are taking additional steps to closely monitor risk at the macro level, within sectors and industries, and at the company level. There are opportunities in today's market, but the balance of risks skews to the downside, given elevated market prices and the current point in the business cycle.

In uncertain environments, quality factors mean even more. Our focus remains on businesses that show strong free cash flow, that have high return on invested capital, and that are able to deliver strong returns to shareholders through dividends or share repurchases. Moreover, we seek to identify companies that show value characteristics as well — unappreciated businesses, misunderstood product lines or companies trading at a discount to their peers.

## 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 1.877.FUND.WHG (877-386-3944), or by visiting our website at westwoodfunds.com. Read the prospectus carefully before investing or sending money.**

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 **Russell 2000® Value Index** measures the performance of those Russell 2000® Index companies with lower price-to-book ratios and lower forecasted growth values. 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. 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. **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. **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. Meme stocks is a stock that has seen an increase in volume not because of how well the company performs, but rather because of hype on social media and online forums. **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. **Yen** is the national currency of Japan. **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.

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