Westwood®

Westwood **Quality SMidCap Fund (WHGMX)**

Commentary

1Q
2025

Performance Highlights

- After a healthy start to the year, stocks sold off from mid-February to the end of the quarter. In this environment, the Westwood Quality SMidCap Fund outperformed its representative benchmark, returning -5.05%, compared to a return of -5.83% for the benchmark Russell 2500 Value® Index.
- 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.
- The bulk of the strategy outperformance, relative to the benchmark, can be attributed to stock selection. Top-contributing sectors to selection effect were the Industrials, Information Technology and Consumer Discretionary sectors, while the Energy, Communication Services and Financials sectors detracted most. Interaction effect, the combination of asset allocation and stock selection, was also beneficial. The interaction effect was positive in the Industrials sector, where we had an overweight position, and our stocks outperformed. The interaction effect was negative for the Information Technology sector due to the underweight position and our outperformance against securities held in the index.
- In the quarter, we increased our weight in the Consumer Discretionary and Materials sectors, and reduced exposure to the Financials and Health Care sectors.

Performance Drivers

- In terms of absolute performance, the top-performing sector in the quarter was the Utilities sector. The Materials and Real Estate sectors also posted positive returns. The Communication Services and Health Care sectors were the weakest performers.
- The top-performing stock in the quarter was **H&E Equipment Services (HEES)**, which nearly doubled early in the quarter after the company announced it was to be acquired by United Rentals. The stock jumped again in February after United Rentals was outbid by Herc Holdings, Inc., who ultimately won the bidding war. Defense contractor **Kratos Defense & Security Solutions (KTOS)** gained as the company announced it had secured a five-year, $1.45 billion contract for hypersonic testing under the MACH-TB 2.0 program, the largest award in company history.
- Timber REIT **PotlatchDeltic Corp (PCH)** gained ground after reporting better-than-expected earnings in the fourth quarter due in part to softening lumber prices, a key driver of costs for the company. Club retailer **BJ's Wholesale Club Holdings (BJ)** jumped in March after the company reported earnings, membership fee income growth and same-store sales figures that were above forecasts. The company's aggressive expansion plans were also well-received. **Royal Gold Inc. (RGLD)** rose steadily in the quarter, as the company reported a 33% gain in revenues. Additionally, investors turned to the gold industry as a safe haven in uncertain times.
- Electric products maker **Hubbell Inc. (HUBB)** was one of the key detractors in the quarter, as the stock declined after reporting revenues below analyst expectations. The shortfall was primarily due to underperformance, driven mainly by the utility segment. The company reported strong fourth quarter orders, however, with an expectation of fewer destocking receding headwinds in 2025.
- Retailer **Academy Sports & Outdoors Inc. (ASO)** declined despite strong earnings and revenue as investors focused on potential for the economy to shift away from specialty retailers.
- Medical device maker **Avantor Inc. (AVTR)** dropped mid-quarter as the company reported disappointing sales figures that showed a 2% decline for the full year. Auto retailer **Lithia Motors Inc. (LAD)** declined after their earnings report showed record revenue, but lower earnings than the same period last year, indicating higher costs had compressed margins. Finally, electronic components manufacturer **Littelfuse Inc. (LFUS)** declined as the company reported fourth-quarter sales that were down year-over- year and earnings that were below expectations.

Performance Update

As of March 31, 2025

Trailing Years Performance

	Inception Date	1Q25	YTD	1 Year	3 Year*	5 Year*	10 Year*	Since Inception*
WHGMX (Class I)	12/19/2005	-5.05%	-5.05%	-2.92%	4.44%	15.38%	6.35%	8.61%
WWSMX (Class Ultra)	7/31/2020	-5.06%	-5.06%	-2.73%	4.64%	--	--	11.78%
Russell 2500 Value Index	12/19/2005	-5.83%	-5.83%	-1.47%	2.27%	16.65%	6.84%	7.42%
Russell 3000 Index	12/19/2005	-4.72%	-4.72%	7.22%	8.22%	18.18%	11.80%	9.97%

*Annualized. Total Annual Fund Operating Expenses by Share Class (gross/net): Class I 1.07% / 0.90%, Class Ultra 0.87% / 0.70%. The Advisor has contractually agreed to waive fees and reimburse expense until March 1, 2026. In the absence of current fee waivers total return and yield would be reduced.

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.

Calendar Year Returns

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
WHGMX	34.27%	26.38%	-2.29%	12.88%	33.80%	4.85%	-3.18%	12.04%	10.39%	-11.47%	29.40%	5.40%	21.31%	-10.36%	17.78%	10.42%
Russell 2500 Value Index	27.68%	24.82%	-3.36%	19.21%	33.32%	7.11%	-5.49%	25.20%	10.36%	-12.36%	23.56%	4.88%	27.78%	-13.08%	15.98%	10.98%
Russell 3000 Index	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%	23.81%

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. REITs are subject to changes in economic conditions, credit risk and interest rates. International investing may involve risk of capital loss from unfavorable currency fluctuations, differences in generally accepted accounting principles or from social, economic or political instability in other nations.

Top 10 Holdings as of 3/31/2025

IDACORP Inc.	TXNM Energy Inc.
Domino's Pizza Inc.	PotlatchDeltic Corp.
Rambus Inc.	Integer Holdings Corp.
BMX Technologies Inc.	AAR Corp.
Avantor Inc.	Wintrust Financial Corp.

Top 10 Holdings represents 20.67% 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:

- We purchased shares of **Advanced Drainage Systems, Inc. (WMS)**, which makes plastic drainage pipes and water management solutions, because of their dominant market position and strong secular tailwinds in stormwater infrastructure. The company offers a cost-efficient, vertically integrated business model, and acquisitions and potential increase in construction provide upside potential.
- **Brixmor Property Group, Inc. (BRX)** offers a compelling mix of value and growth, with in-place rents 20% below market and significant occupancy upside. Its transformed, grocery-anchored portfolio is well-positioned for long-term gains. We purchased shares because they are trading at a discount to peers, offering an attractive REIT investment opportunity.
- We initiated a position in **The Cheesecake Factory Inc. (CAKE)** based on its compelling multi-brand growth strategy and underappreciated assets. With strong unit expansion potential at North Italia and Flower Child, the company offers one of the best topline growth profiles in casual dining. Attractive valuation and potential activist involvement enhance the reward-to-risk profile.
- **Eagle Materials (EXP)** is a low-cost cement and wallboard producer with pricing power, industry-leading margins, and strong infrastructure and housing tailwinds. The company has favorable supply dynamics and solid free cash flow; a recent pullback offered an attractive entry point.
- We purchased shares of insurer **Mercury General (MCY)** following a sell-off related to concerns about exposure to California wildfires. The company offers favorable pricing in both auto and home insurance. The downside risk from the wildfires was mispriced, resulting in a favorable reward-to-risk ratio.
- We believe **South State Bank (SSB)** offers a strong risk/reward profile driven by one of the best deposit bases and credit underwriting records in the industry. With low loan-to-deposit ratios, strong capital and high loan loss reserves, the bank is well-positioned for stability and growth.

The following positions were sold from the portfolio:

- We exited **Alliant Energy Corporation (LNT)** as the stock price had appreciated to where the reward-to-risk ratio was no longer favorable, to rotate into more compelling investment opportunities.
- We eliminated our position in **Amkor Technology, Inc. (AMKR)** after consecutive earnings misses caused us to question the investment thesis.
- We sold **Atlantic Union Bankshares Corp. (AUB)** following a quarterly report with a provision for a charge-off on a commercial loan, which impacted earnings and raised concerns. We sold the position for one with a more attractive reward-to-risk profile.
- We exited a position in **Baldwin Insurance Group, Inc. (BWIN)** to take profits following a rebound in the stock price after a recent pullback. While the reward-to-risk ratio remains attractive, we used the proceeds to fund more compelling ideas.
- **Bio-Rad Laboratories, Inc. (BIO)** was sold to fund more compelling ideas.
- **DigitalBridge Group, Inc. (DBRG)** was sold as the risk/reward ratio was no longer attractive, causing us to move on to better ideas.
- **H&E Equipment Services, Inc. (HEES)** was sold from the portfolio as the company agreed to an acquisition offer from a competing equipment rental company.

Market Review

The U.S. stock market hit record highs in February but 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.

Outlook

As the calendar turns to 2025, there is much to process with respect to economic data, proposed policy prescriptions and the stock market. Given the environment, it's important to set expectations and guidelines that can drive our research and explain investment performance.

The Federal Reserve began to cut rates in the third quarter, reducing the fed funds rate by 100 bps and announcing that further cuts may be needed. But almost immediately after the Fed action, market interest rates soared: The 10-year Treasury jumped over 80 bps while 30-year mortgage rates rose by nearly 100 bps to almost 7%. Moreover, expectations for further cuts diminished — at year-end, the market was pricing in only one or two more cuts through 2025. We believe that the Fed may have engineered the desired “soft landing,” and that growth lies ahead.

With the conclusion of the November elections in the U.S. — and the lack of recriminations, recounts and lawsuits — we found certainty around the political situation. In a second Trump administration, we anticipate they will work to extend the tax cuts of 2017, which would be beneficial to consumers and businesses alike. We also could see an attempt to rein in government regulations, which may also be beneficial to businesses. On the other hand, the constant discussion of tariffs, whether they are enacted or not, has the potential to add volatility to the market and act as a headwind to growth.

Looking at the stock market, earnings growth appears to be solid, both for the fourth quarter estimates and full-year projections for 2025. However, with equity valuations somewhat elevated, markets could be vulnerable to unforeseen events that could create volatility. If stock market valuations compress due to rising inflation, higher interest rates or an outside shock, equity returns would be limited as multiple compression offsets earnings growth. The euphoric market of the second half of this year may have pulled forward some of 2025's potential gains, which could lead to additional volatility at any sign of distress.

Gathering and reading these tea leaves, we are cautiously optimistic that the run of good fortune in the equity market may continue through 2025. Behind a backdrop of benign credit conditions, elevated equity valuations, and accommodative federal policy, we believe that stocks may be an advantageous investment in the coming year.

There will no doubt be volatility, which we believe will present a buying opportunity for smart investors. As the post-COVID bull market ages, history teaches us that investors may begin to remove the “risk-on” trade that has dominated the past four years and turn their attention to quality, where our investment style can be appreciated.

Over the long term, our emphasis on the intersection of quality and value has proven to be productive. We focus on such factors as strong free cash flow, high return on invested capital, low leverage and consistent dividends or share repurchases, as companies with these qualities, purchased at a discount to the market or their growth potential, have historically outperformed through a full market cycle.

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 **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 2500® Value Index** measures the performance of those Russell 2500® 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. **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. **SMid cap** is a term used to refer to a company with a market capitalization value ranging between $50 million to $14.6 billion. A company's market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share. **Magnificent 7** refers to seven major U.S. technology companies: Apple, Microsoft, Alphabet (Google), Amazon, NVIDIA, Meta (formerly Facebook), and Tesla.

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