Westwood Broadmark **Tactical Growth Strategy**

Market Update

January
2025

Strategy Overview

Westwood Broadmark Tactical Growth Strategy is designed to help investors sidestep market downturns, while participating in its growth via the continuous and active management of portfolio market exposure. The strategy seeks to manage risk and enhance alpha with the flexibility to be long, short or neutral on the market.

- The strategy is designed as a core investment for those who worry about losing money in equity market downturns but also want to participate in the market's upside. Using active market exposure management, the strategy moves in and out of the market incrementally based upon macro and technical factors.
- The strategy invests primarily in a diversified portfolio of exchange-traded funds (ETFs) and instruments providing exposure to indices, sectors and industries based on its four-pillar process.
- Proprietary Volume/Breadth-Based Momentum models are used to determine optimal stock market exposure, including entry points, the amount of exposure, the type of exposure and exit points.

Market Review

The S&P 500 Index rose 25.00% in 2024, the first time since 1998 that we have seen two consecutive years of gains of more than 20%.[1] Virtually all the major stock market averages climbed to new all-time highs during the year. But, for the second year in a row, there was a disparity between the major market averages and the rest of the market. The S&P 500 Equal Weight Index was up 12.98%, a good return but only about half of the cap-weighted S&P 500.[1] The S&P 500 was helped by the strength in the technology sector, which now accounts for a record 38.48% of the S&P 500.[1] The Nasdaq-100 Index finished the year with a gain of 25.88%.[1] The Dow Jones Industrial Average added 14.99% and the Russell 2000 Index was up 11.53% for the year.[1] Despite three interest rate cuts by the Federal Reserve (Fed) during the year, interest rates rose, with the yield on the 10-year U.S. Treasury Note increasing from 3.88% to 4.58%.[2]

Two of the four pillars of our investment process remain in negative territory from a longer-term point of view. Equity valuations were in the top quintile historically and stock market capitalization as a percentage of nominal gross domestic product (GDP) rose to a new all-time high. Investor sentiment is still optimistic—negative from a contrary point of view—with our intermediate sentiment indicator remaining in negative territory, although we have seen improvement in our daily sentiment indicator. U.S. households now hold a higher percentage of common stocks than ever before and flows into equity ETFs are at a record high.

The other two pillars of our investment process—monetary policy and momentum—remained positive but deteriorated in the second half of the year. With respect to monetary policy and credit conditions, the Fed has indicated a more gradual approach to reducing interest rates in 2025, and interest rates rose in the last quarter of 2024, nearing their highs for the year. Also, while credit spreads remained very tight, credit card defaults rose to a 14-year high.[3] Our

[1] Bloomberg, December 31, 2024
[2] U.S. Department of the Treasury, December 31, 2024
[3] Bloomberg, December 31, 2024

momentum models were still positive, but we saw a significant deterioration in breadth due to the narrowness of the market advance. Our breadth model declined to its weakest level in over a year.

In view of valuation and sentiment remaining negative coupled with a rise in interest rates and a deterioration in momentum, the team reduced the strategy's exposure by 20% in December 2024. The team would raise exposure once again if interest rates were to decline from current levels and our volume and breadth momentum models improved. The team would further decrease exposure if interest rates continued to climb, credit spreads widened and if our volume and breadth momentum models weakened.

Our assessment of the four pillars of our investment process is as follows:

1. ***Valuation:*** Equity valuations remain elevated as compared with historical norms. Stock market capitalization as a percentage of GDP, Warren Buffett's favorite valuation metric, has now risen to its highest level ever (*Figure 1*). Valuations are still in the top quintile historically and remain high by historical standards, which is a negative in our work.

2. ***Monetary factors and credit conditions:*** Despite the Fed's three cuts in interest rates during the year, the 10-year U.S. Treasury Note ended the month with a 4.58% yield, up from the 4.18% yield at the end of November and up from 3.88% at the start of 2024.[4] Nonetheless, credit spreads are narrow and have now dropped to their lowest level since 2007 (*Figure 2*). While credit conditions do not appear to pose any problem currently, credit card defaults have now risen to a 14-year high.[5] This, coupled with the incoming administration's intended efforts to control the growth of U.S. debt, could have a negative impact on credit conditions in 2025. If this were to occur, it would be reflected in a rise in credit spreads.

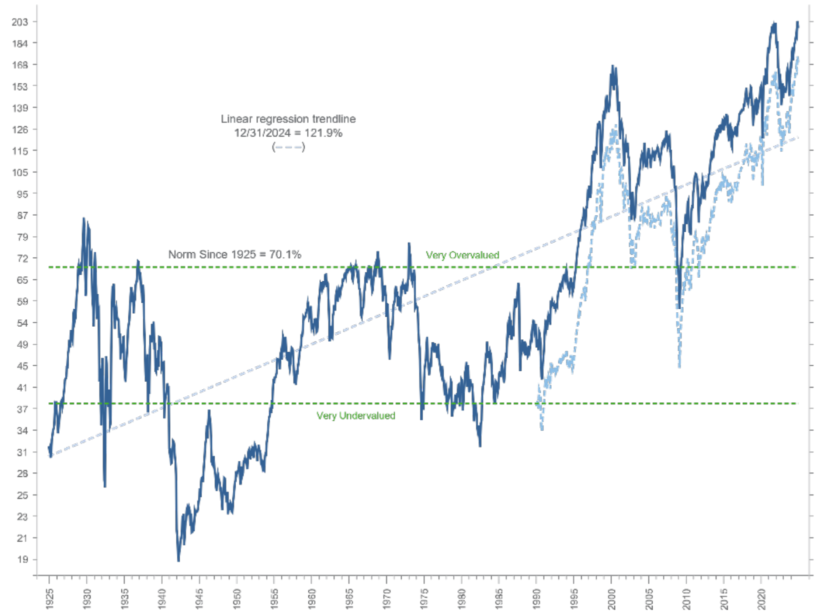
3. ***Sentiment:*** Investor sentiment has become more speculative as the market has risen to new highs. Our daily and intermediate composite indexes of investor sentiment are both in negative territory. In addition, retail investors have poured money into equity ETFs, and the 50-day moving average of equity ETF flows has now climbed to its highest level ever (*Figure 3*). It is good to remember, however, that investor sentiment is a condition, not a trigger. Speculative sentiment can continue for quite a while before a market downturn, as happened in the late 1990s prior to the dot-com bubble.

4. ***Momentum:*** While momentum continues to be positive, we are seeing some significant divergences. The top 10 S&P 500 stocks by market capitalization have now climbed to a record 38.48% of the total S&P 500 market cap (*Figure 4*), an all-time high. Reflecting this market narrowness, the equal-weighted S&P 500 was up only 12.98% in 2024, a respectable return but only about half of the cap-weighted S&P 500's return of 25.00% (*Figure 5*). Furthermore, only 29.4% of the stocks in the S&P 500 outperformed the index in 2024. Our breadth model is now confirming these divergences and, while still in positive territory, has now fallen to its weakest level in over a year (*Figure 6*).

[4] U.S. Department of the Treasury, December 31, 2024
[5] Bloomberg, December 31, 2024

Figure 1.

Stock Market Capitalization as a Percentage of Nominal GDP

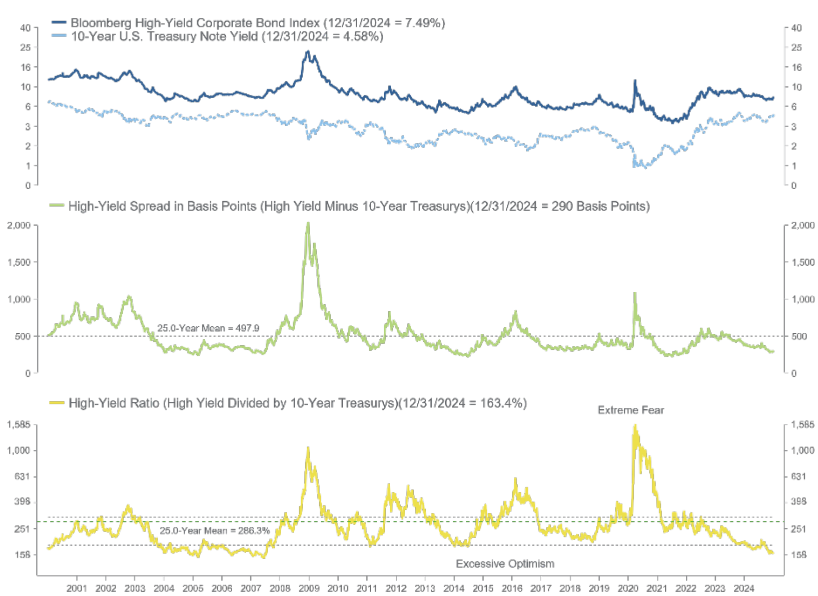


NDR estimated fixed-weighted GDP for December 1924–February 1946; Chain-weighted GDP used after February 1946; Calculation uses NDR estimated common stock market capitalization of U.S.-based companies; Dow Jones total stock market capitalization used from January 1973 through September 1980; NYSE market capitalization used prior to January 1973.

Sources: Ned Davis Research (NDR), Bloomberg, Department of Commerce, S&P Global, Jim Blanco. Monthly data 12/31/1924 to 12/31/2024 (Log Scale). *Past performance does not guarantee future results. For illustrative purposes only.*

Figure 2.

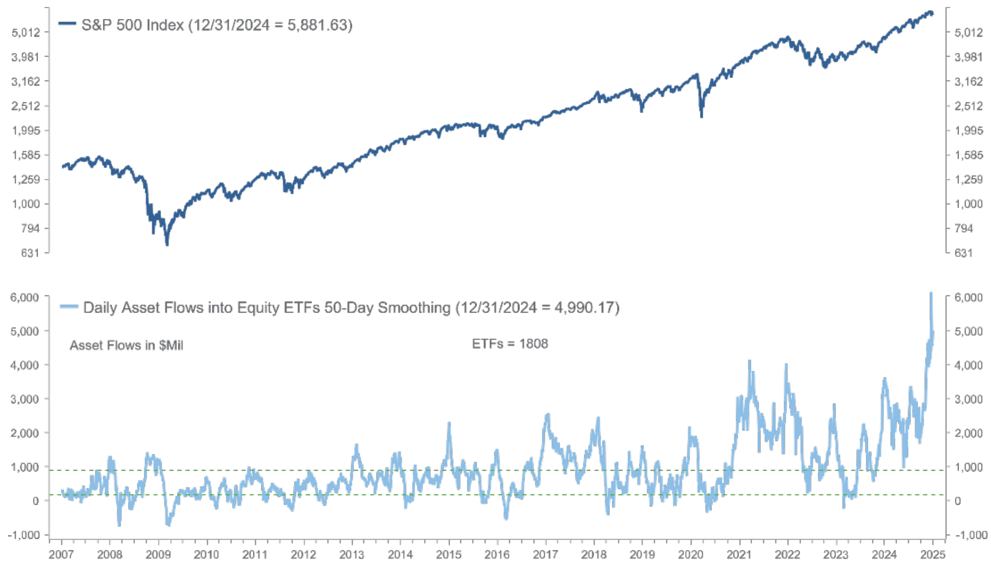
High-Yield Corporate Spreads



Sources: Ned Davis Research (NDR), Bloomberg Indices, Federal Reserve Board. Daily data 01/03/2000 to 12/31/2024. *Past performance does not guarantee future results. For illustrative purposes only.*

Figure 3.

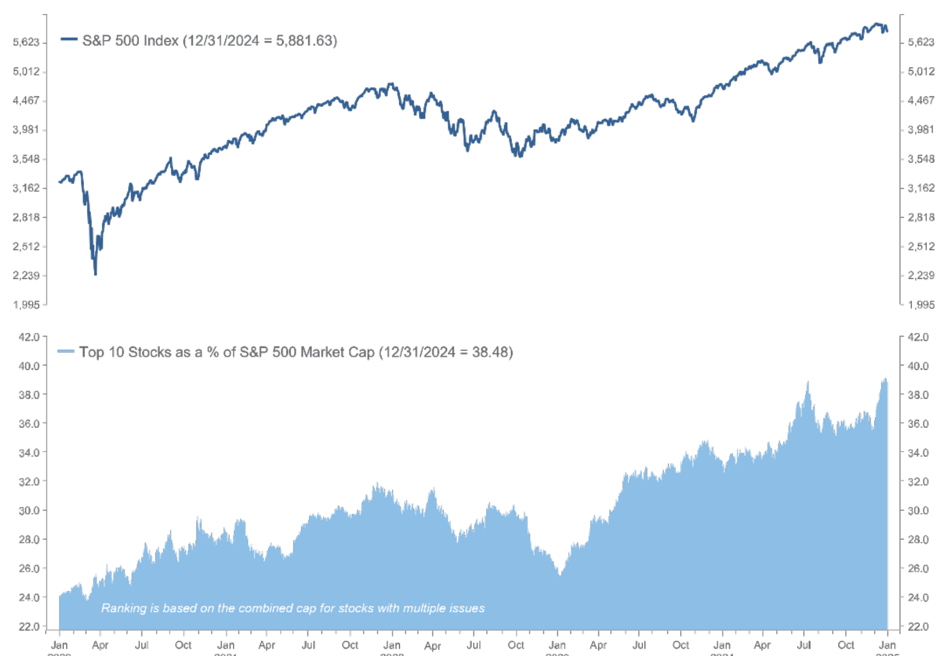
S&P 500 Index and 50-Day ETF Equity Flows



Sources: Ned Davis Research (NDR), S&P Dow Jones Indices. Daily data 01/05/2007 to 12/31/2024. *Past performance does not guarantee future results. For illustrative purposes only.*

Figure 4.

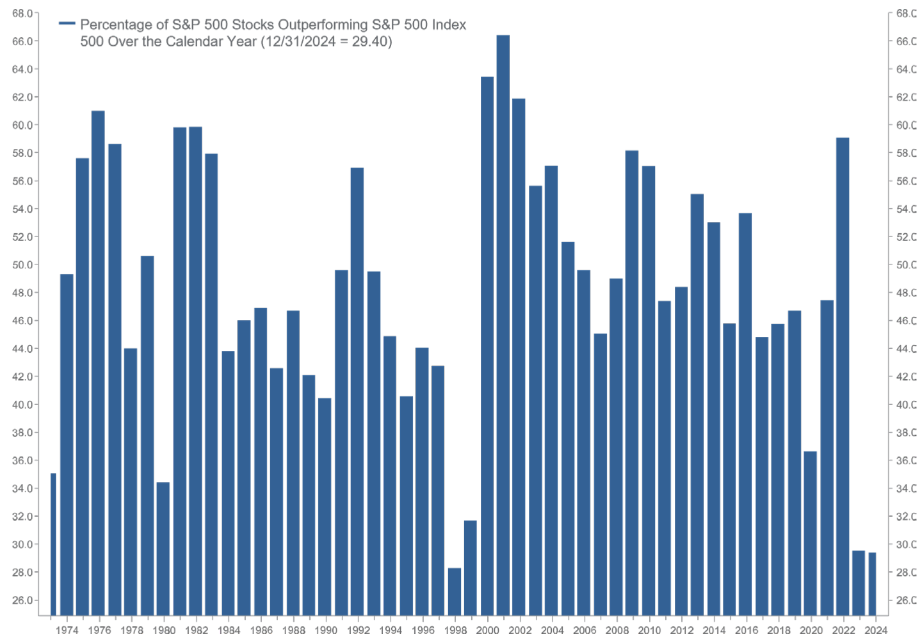
S&P 500 vs. Top 10 S&P 500 Stocks by Market Cap as a % of Total S&P 500



Sources: Ned Davis Research (NDR), S&P Dow Jones Indices. Daily data 01/02/2020 to 12/31/2024. *Past performance does not guarantee future results. For illustrative purposes only.*

Figure 5.

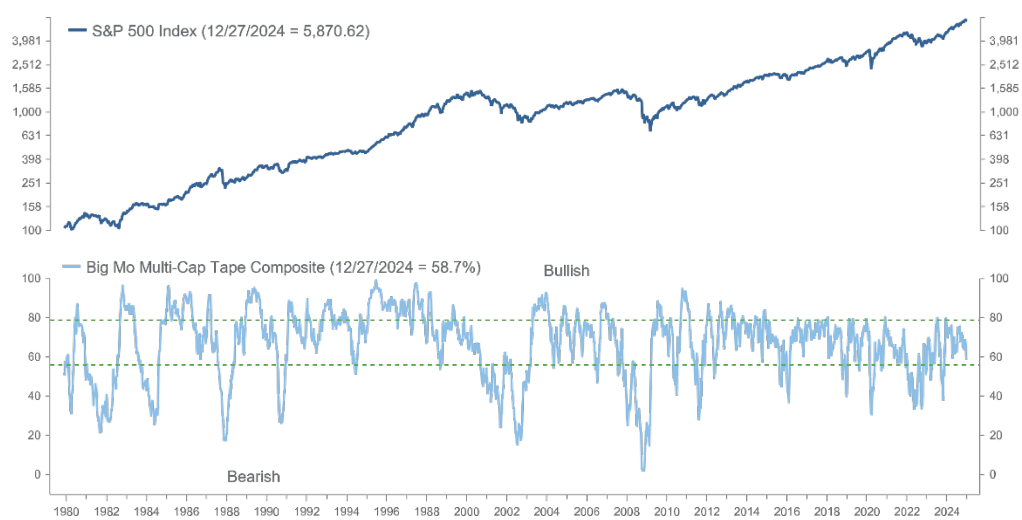
Percentage of S&P 500 Stocks Outperforming the S&P 500 Over the Calendar Year



Sources: Ned Davis Research (NDR), S&P Dow Jones Indices. Yearly data 12/31/1973 to 12/31/2024. *Past performance does not guarantee future results. For illustrative purposes only.*

Figure 6.

S&P 500 Index vs. Big Mo Multi-Cap Tape Composite — Directional Mode Basis



Sources: Ned Davis Research (NDR), S&P Dow Jones Indices, NDR Multi-Cap Institutional (Universe), S&P Capital IQ, MSCI, Inc (GICS). Weekly data 11/16/1979 to 12/27/2024. *Past performance does not guarantee future results. For illustrative purposes only.*

About Westwood

Westwood Holdings Group, Inc. is a focused investment management boutique and wealth management firm.

Westwood offers high-conviction equity and outcome-oriented solutions to institutional investors, private wealth clients and financial intermediaries. The firm specializes in two distinct investment capabilities: U.S. Value Equity and Multi-Asset, available through separate accounts, the Westwood Funds® family of mutual funds and other pooled vehicles. Westwood benefits from significant, broad-based employee ownership and trades on the New York Stock Exchange under the symbol "WHG." Based in Dallas, Westwood also maintains an office in Houston. For more information, please visit westwoodgroup.com.

Important Information

The **Tactical Growth composite** seeks to produce above-average, risk-adjusted returns, in any market environment, while exhibiting less downside volatility than the market itself. The strategy is designed to evaluate potential long and short investments in an attempt to isolate those securities believed to be undervalued or overvalued relative to their intrinsic value and offer the greatest risk-adjusted potential for returns. The portfolio primarily invests in ETFs of securities and security indices that can represent long, short, levered long or levered short positions in general asset classes of both U.S. and overseas equity markets. For comparison purposes, the composite's benchmarks are the HFRX Equity Hedge Index and the S&P 500 Index. The HFRX Equity Hedge Index comprises private funds with strategies that maintain both long and short positions primarily in equity securities and equity derivatives. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value-weighted index and one of the most widely used benchmarks of U.S. stock performance. On January 1, 2019, the HFRX Equity Hedge Index replaced the S&P 500 Index as the strategy's primary benchmark index because the new index more closely aligns to the strategy's investment methodologies. Prior to December 31, 2018, the Morningstar Long/Short Equity Index was the secondary benchmark. It is no longer shown as the HFRX Equity Hedge Index more closely aligns to the portfolio's investment strategies.

Separately managed account strategies may not be appropriate or suitable for all investors. There is no guarantee that the strategy's objective will be achieved. It should not be assumed that investments in this strategy have been or will be profitable.

Past performance does not guarantee future results.

Other than levered and inverse ETFs, leverage or derivatives are not used. The use of levered and inverse ETFs is anticipated to be infrequent and may not materially impact returns.

The risks associated with ETFs are detailed in the individual ETF's prospectus, which will be provided upon request.

The portfolio is sub-advised by Broadmark Asset Management LLC, an independent registered investment advisor.

Westwood Management Corp. ("WMC") is a wholly owned subsidiary of Westwood Holdings Group, Inc. (NYSE: WHG). WMC is an SEC registered investment adviser under the Investment Advisers Act of 1940. This information is being provided solely for educational purposes and is not an offer to sell or solicitation of an offer to buy an interest in any investment fund. Any such offer or solicitation may only be made by means of a confidential private offering memorandum or prospectus relating to a particular fund and only in a manner consistent with federal and applicable state securities laws.

Westwood Investment Glossary

10-year U.S. Treasury Note is a debt obligation issued by the U.S. Treasury that has a term of 10 years.

Alpha is a technical risk ratio that shows a fund's excess return relative to the performance of its benchmark index.

Basis point (bps) is a unit of measure that is equal to 1/100th of 1% and used to denote a change in the value or rate of a financial instrument.

Bloomberg U.S. Corporate High Yield Bond Index covers the USD-denominated, noninvestment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

Breadth is a technique used in technical analysis that attempts to gauge the direction of the overall market by analyzing the number of companies advancing relative to the number declining.

Credit spread is the spread between Treasury securities and non-Treasury securities that are identical in all respects except for quality rating.

Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry and are listed on the New York Stock Exchange.

Exchange-traded funds (ETFs) track an index but trade like a stock on an exchange.

Federal Reserve is the central bank of the United States that is responsible for regulating the U.S. monetary and financial systems.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced in a country in a given year. GDP is one way of measuring the size of a country's economy.

Momentum is the rate of acceleration of a security's price or volume.

Monetary policy refers to the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, including a change in interest rates or the amount of money banks need to keep in bank reserves.

Nasdaq-100 Index is a modified capitalization-weighted index that includes the largest nonfinancial U.S. and non-U.S. companies listed on the NASDAQ stock market across a variety of industries, such as retail, healthcare, telecommunications, wholesale trade, biotechnology and technology.

NDR Big Mo Multi-Cap Tape Composite model uses trend and momentum indicators to provide a composite reading on the technical health of the broad equity market.

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index represents approximately 98% of the investable U.S. equity market.

S&P 500 Equal Weight Index is the equal-weight version of the widely regarded S&P 500. The index has the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight.

S&P 500 Index is an unmanaged index of 500 common stocks chosen to reflect the industries in the U.S. economy.

Spread is the difference between the rate of volume demand and the rate of volume supply.

Valuation is the process of determining the value of an asset or company based on earnings and the market value of assets.

Volume is the number of shares or contracts traded in a security or an entire market during a given period of time.

Volume/Breadth-Based Momentum Model is a proprietary model used by Broadmark Asset Management to determine optimal market exposure.

Yield is the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost or on the U.S. Government's debt obligations.

One cannot invest directly in an index.