Westwood®

U.S. Value Equity – Portfolio Update

As of March 23, 2020

Summary Overview

We remain confident in our current portfolio and resiliency of the companies we own particularly during some of the worst days in the market. We will continue to evaluate new opportunities that arise from our bottom-up, fundamental research analysts for the portfolio during these volatile markets and will make the appropriate changes.

Our positioning has remained in undervalued, high-quality businesses given our philosophy of investing at the intersection of quality and value with generally less exposure to more cyclical or economically sensitive areas of the market. Across our U.S. Value Equity suite of strategies, we have been able to generate alpha throughout this volatile period and continue to stay committed to our investment objectives. In summary, we are closely monitoring the companies we own in the portfolio to ensure our investment thesis remains intact and continue to research new opportunities the sell-off may present across the investable universe. We believe companies with stronger free cash flow, higher Return on Equity (ROE) and less leverage will be rewarded not only during the current downturn, but also as markets recover during the early part of the new cycle.

We remain confident that our focus on protecting client capital during these historically volatile periods will serve our clients well as it has for over 35 years. While uncertainty remains high in the near term, we will continue to execute our time-tested process for identifying, vetting and ultimately owning our analysts' highest-conviction names at the intersection of quality and value.

LARGECAP VALUE vs. R1000 Value Index

We continue to make adjustments to optimize our risk exposures by taking advantage of the market sell-off to rotate into higher-quality and more attractively valued recommendations to improve overall reward/risk profile in the portfolio. We have reduced our exposure to the commercial aerospace industry, given elevated capital requirements going forward throughout the supply chain, and added exposure to a global leader in paints and coatings. We have also added to our exposure in video games as more and more people around the world are spending increased time in their homes. To note, our energy positions have decreased overall in the portfolio as a result of the repositioning and the sharp market declines experienced across the energy complex.

Sector allocation: Our overweight position in Industrials has been reduced but remains tilted toward Defense stocks while our overweight in Communications Services has increased. We also included the overweight Information Technology. We maintain portfolio underweights in Materials, though it has been reduced due to our recent purchase, and Financials with a modest underweight to Energy. Our positioning has remained in undervalued, high-quality businesses given our philosophy of investing at the intersection of quality and value with generally less exposure to more cyclical or economically sensitive areas of the market.

Cash has averaged near 3.3% YTD and stands at less than 1% today as we have continued to harvest profits and reinvest in high-conviction ideas within the portfolio as we normally do within our process.

SMIDCAP Value vs. R2500 VALUE Index

We continue to make adjustments to optimize our risk exposures by taking advantage of the market sell-off to rotate into higher-quality and more attractively valued recommendations to improve overall reward/risk profile in the portfolio. At the sector level, this has reduced our exposure to Industrials and increased our underweight since the beginning of the year. Similarly, we reduced our exposure to construction-related industries which has reduced our overweight in Materials. We also added exposure with Real Estate to self-storage while reducing retail exposure. Energy has shifted from a modest overweight to a modest underweight. The total overall weight in both our portfolio and our benchmark has decreased dramatically since the beginning of the year given the sharp sell-off we have seen in the sector.

Sector allocations: We are overweight in Consumer Staples, which we believe provides the portfolio more resiliency with more stable demand. We remain overweight materials with an emphasis on housing and construction-related products and select Health Care businesses. The largest underweight in the portfolio is in Industrials, where our holdings are tilted toward less economically sensitive end markets, Real Estate and Communication Services where we do not have exposure to the media, publishing or advertising industries. Our positioning has remained in undervalued, high-quality businesses given our philosophy of investing at the intersection of quality and value with generally less exposure to more cyclical or economically sensitive areas of the market.

Cash has averaged a little over 1.0% YTD and stands at less than 1% today as we have continued to harvest profits and reinvest in high-conviction ideas within the portfolio as we normally do within our process.

SMALLCAP VALUE vs. R2000 VALUE Index

We continue to make adjustments to optimize our risk exposures by taking advantage of the market sell-off to rotate into higher-quality and more attractively valued recommendations to improve overall reward/risk profile in the portfolio. At the sector level, this has increased our overweight in Consumer Discretionary from a modest underweight to a modest overweight in order to position in those businesses best able to weather the current environment such as companies with an established delivery franchise while limiting our exposure and those most disrupted. Additionally, our weight in Health Care has risen and shifted from being an underweight to being overweight as valuations became more attractive and fundamental prospects improved. Energy has shifted from being modestly underweight to be more notably under the benchmark as we exited names where our thesis was imperiled by the sharp declines in crude prices. The total overall weight in both our portfolio and our benchmark has decreased dramatically since the beginning of the year given the sharp sell-off we have seen in the sector. We remain vigilant in assessing downside risk in every holding we own and the current energy commodity price environment makes identifying an opportunity set, where both the downside is quantifiable and the risk magnitude is acceptable, remains extremely challenging amidst the rising non-U.S. supply and global shock to demand.

Sector allocations: We remain overweight in Industrials owning a diverse set of businesses that possess strong, company-specific opportunities. We are also overweight Consumer Staples and Health Care, which we believe provides the portfolio resiliency with more stable demand. The largest underweight in the portfolio is in Financials and Energy, Real Estate and Materials. Our positioning has remained in undervalued, high-quality businesses given our philosophy of investing at the intersection of quality and value with generally less exposure to more cyclical or economically sensitive areas of the market.

Cash has averaged a little over 1.8% YTD and stands at roughly 3% as we have continued to harvest profits and reinvest in high-conviction ideas within the portfolio as we normally do within our process.

ALLCAP VALUE vs. R3000 Value Index

We continue to make adjustments to optimize our risk exposures by taking advantage of the market sell-off to rotate into higher-quality and more attractively valued recommendations to improve overall reward/risk profile in the portfolio. At the sector level, this has increased our overweight in Communication Services to take advantage of recent valuation dislocations. Consumer Discretionary similarly shifted from a modest underweight to a modest overweight in order to position in those businesses best able to weather the current environment such as companies with an established delivery franchise while limiting our exposure and those most disrupted. Energy has shifted from being modestly underweight to be more notably under the benchmark as we exited names where our thesis was imperiled by the sharp declines in crude prices. The total overall weight in both our portfolio and our benchmark has decreased dramatically since the beginning of the year given the sharp sell-off we have seen in the sector. We remain vigilant in assessing downside risk in every holding we own and the current energy commodity price environment makes identifying an opportunity set outside of the largest operators, where both the downside is quantifiable and the risk magnitude is acceptable, extremely challenging amidst the rising non-U.S. supply and global shock to demand.

Sector allocations: We remain overweight Communications Services, Materials and Consumer Staples. Underweights remain in Financials and Utilities where the actual weight in the portfolio has remained relatively constant despite their relative outperformance, and in Health Care.

Cash has averaged a little over 1.7% YTD and stands at roughly 2.3% as we have continued to harvest profits and reinvest in high-conviction ideas within the portfolio as we normally do within our process.